Austria Sch22	Indonesia ... Rp3100	Portugal Esc100
Bahrain Din0 650	Israel NS3.50	S.Arabia Rls6.00
Belgium BFr48	Italy L1600	Singapore .... S$4.10
Canada .... C$1.00	Japan Y600	Spain Pta125
Cyprus .... C£0.75	Jordan Fils500	Sri Lanka Rup30
Denmark ... DKr9.00	Kuwait Fils500	Sweden SKr8.00
Egypt .... E£2.25	Lebanon .. SL125.00	Switzerland. SFr2.20
Finland Fmk7.00	Luxembourg .. LFr48	Taiwan .... NT$85
France FFr6.50	Malaysia Rin4.25	Thailand Bht50
Germany DM2.20	Mexico Pes300	Tunisia Din0.800
Greece Dr100	Morocco Dh6.00	Turkey L500
Hong Kong.... HK$12	Netherlands... Fl3.00	UAE Dh6.50
India Rup15	Norway Nkr8.00	USA $1.00

FINANCIAL TIMES

EUROPE'S BUSINESS NEWSPAPER

No. 30,416 — Wednesday December 16 1987 — D 8523 A

Columbus project: Europe's bold bid for space, Page 2

World News

Ugandan clash with Kenya spreads

Kenya began moving thousands of Ugandan refugees from its border area with Uganda as fighting between Ugandan soldiers and Kenyan security forces spread along their closed frontier for the second successive day.

Kenyan sources, fearing raids on the refugee camps, said the clashes had extended from Busia to a second border crossing.

Poles lift prices

The Polish Government announced that food prices would rise by an average 40 per cent next year, following the Government's failure to win public support in a referendum last month for more sweeping austerity measures. Page 20

Tanker abandoned

The crew of a Greek tanker abandoned ship in the southern Gulf after it was machine-gunned by Iranian gunboats then attacked by an Iranian frigate which opened fire with a five-inch gun.

East-West spy swap

West Germany would hand over three convicted East German spies to East Germany today in exchange for "a significantly higher number" of West German agents held by the communists, Bonn government sources said.

Soviet workers' demo

Workers at a car plant in Yaroslavl, north-east of Moscow, won concessions from their management after staging a protest against working extra shifts.

SDI split 'remains'

The Soviet Union confirmed that fundamental differences remained between Moscow and Washington over the development of space-based defence systems. Page 4; Gorbachev's Nicaragua offer, Page 20

Bangladeshis freed

Bangladesh freed more political detainees and lifted a ban on rallies on the eve of a public holiday in an effort to mollify opposition campaigners trying to topple President Ershad.

Greek general strike

Domestic and foreign airline flights were cancelled, schools and some banks were closed and public services were disrupted as hundreds of thousands of Greeks staged a 24-hour general strike for higher pay and a shorter working week. Page 2

Storm leaves 22 dead

A vicious storm raked the Midwestern United States yesterday, leaving at least 22 dead. Airports and schools were closed and power lines torn down in blinding snow driven by winds gusting to 75 mph.

Peach fraud suspects

Italian police arrested 11 people in the Naples area on suspicion of fraudulently trying to obtain EC subsidies for processed peaches.

Trade barrier plan

The West German Government drew up a six-month plan to dismantle more than two dozen barriers to free trade in the European Community. Page 3

Athens fights pollution

Cars will be banned from Athens' centre, buses will have special exhausts and the number of taxis will be halved to reduce pollution in Athens, regarded as one of the most smog-ridden capitals in the world, the government announced.

Explosives chief quits

Guy-Jean Bernardy, head of France's state-owned SNPE explosives company, resigned after allegations that the company sold more than 1,000 tonnes of its products to Iran.

Reindeer toll

Norway's Lapps must this Christmas destroy about 8,000 reindeer contaminated with radioactivity from the Chernobyl nuclear disaster in May 1986, researchers said.

Business Summary

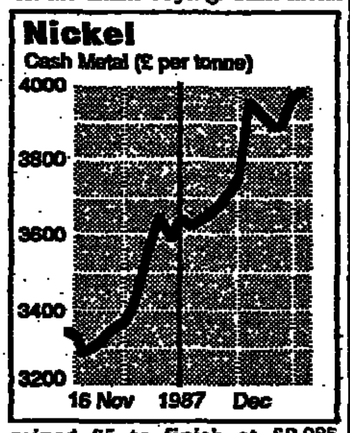
Record UK bank loss expected at Midland

MIDLAND BANK's financial results for 1987 will show what is expected to be the largest loss ever suffered by a UK clearing bank. The figure will stem from an about-turn, announced yesterday, in the bank's proposed treatment of its provisions for doubtful Third World loans.

In July the bank said it planned to exclude the £916m ($1,676m) provisions from its profit and loss account by treating them as an extraordinary item. This led to accusations that Midland was artificially inflating its profits by cosmetic devices. Page 20

TEXACO, US oil group which sought refuge in the bankruptcy courts from a $10.3bn jury award of damages to Pennzoil, may be forced to dispose of assets and open itself to takeover as the result of a $5bn plan to lead the company out of bankruptcy. Page 21

NICKEL prices continued to rise on the London Metal Exchange on merchant buying. Cash metal gained $5 to finish at $3,985 ($7,292) a tonne, following Monday's $81 gain. Commodities, Page 28



WALL STREET: The Dow Jones industrial average closed up 8.62 at 1941.48. Page 40

LONDON: Internationally-traded blue chips took heart from overnight strength on Wall Street to lead London equities higher from the opening. The FT-SE 100 index closed up 17.4 at 1,670.0. Details, Page 38

TOKYO: The Nikkei average fell 79.55 points from Monday to 22,846.78 in slightly higher volume of 512m shares compared with 326m the previous day. Advances led declines by 452 to 427, with 156 issues unchanged. Page 40

DOLLAR closed in New York at DM 1.6315; FFR5.5295; SFr1.3300; Y127.65. It closed in London at DM1.6310 (unchanged); FFr5.5275 (FFr5.5300); SFr1.3280 (SFr1.3275) and Y127.55 (Y127.95). Page 29

STERLING lost ground in very thin trading yesterday. It closed in New York at $1.8300. It closed in London at $1.8310 ($1.8365); DM2.9875 (DM2.9950); FFr 10.12 (FFr10.1550); SFr2.4325 (SFr2.4375) and Y233.50 (Y236.0). Page 29

MEXICO is using cheaper imports, or the threat of them, as the cornerstone of its fight against inflation, now running, officially at 144 per cent annually. Page 4

MITSUBISHI CORPORATION, Japan's largest trading company, increased group net earnings by 7.8 per cent in the half year to September to Y16.045bn ($125m), or Y10.31 a share, from Y14.968bn, or Y10.50 a share, a year earlier. Sales rose by 3.1 per cent to Y5,377bn. Page 22

USX, Pittsburgh-based industrial group, which is the largest US steel producer, said it was launching a campaign to capture export markets for steel products opened up by the tumbling dollar and lower production costs. Page 21

WARDLEY THOMSON, one of Hong Kong's leading futures brokers, which is a joint venture between Wardley, the Hong Kong Bank subsidiary, and Thomson McKinnon of the US, lost at least HK$90m (US$11.6m) following the near-collapse of the local futures exchange in October. Page 22

Japan unveils $2bn Asean aid package

JAPAN yesterday unveiled details of a $2bn aid package for the Association of South East Asian Nations at the conclusion of the organisation's first summit for 10 years, **Roger Matthews and Richard Gourlay in Manila write.**

Mr Noburo Takeshita, the Japanese Prime Minister, told the leaders of six Asean countries – Thailand, Malaysia, the Philippines, Indonesia, Brunei and Singapore – the three-year loan fund would be aimed at promoting private-sector joint ventures between Japanese companies and companies in Asean countries. More than half the loans would be in the form of overseas development assistance.

The aid package underscores Japan's deepening commitment to South-East Asia and reaffirms Tokyo's position as the predominant economic power in the region.

Mr Takeshita said Japan would launch an investment fund for all six countries in the region, including oil-rich Brunei and Singapore, but most of the funds would, in practice, go to the four larger and needier countries.

The fund will supplement existing bilateral assistance with interest rates similar to those applied to ordinary Japanese aid. In some cases, however, the rate will be 0.5 per cent below the current 3 per cent, in response to strong Asean pressure.

Asean countries have been concerned about the expense of borrowing in sharply appreciating yen. Japanese officials yesterday recognised this concern and said details on the issue had yet to be worked out.

Details of the fund's use and purpose will be worked out in an experts' group to be chaired by Malaysia. Japanese officials suggested the impetus for further progress would have to come from the Asean countries.

The bulk of the funds are to be directed at small- and medium-sized companies, but Japanese officials did not rule out financing for large industrial projects.

Mr Takeshita's first visit abroad as Prime Minister was a gesture of support for President Corazon Aquino of the Philippines whose domestic opponents had been threatening to torpedo the summit to embarrass her. His presence was particularly appreciated by the leaders of the six Asean nations, most of whom came to Manila against the advice of their security chiefs.

Although the aid deal eclipsed much of the summit, the Asean leaders – in their only formal joint session – approved modest measures to improve economic co-operation which had been agreed earlier by officials.

Over the next five years, the

Continued on Page 20

Joint ventures, Page 5

Takeshita: joint ventures

Israel denies raid on Lebanon as Syrian troops go on alert

BY ANDREW WHITLEY IN JERUSALEM

SYRIAN forces in the Lebanese town of Mashgarah in the Bekaa valley were on alert yesterday amid reports of fighting between Israeli troops and Moslem guerrillas barely two miles to the south.

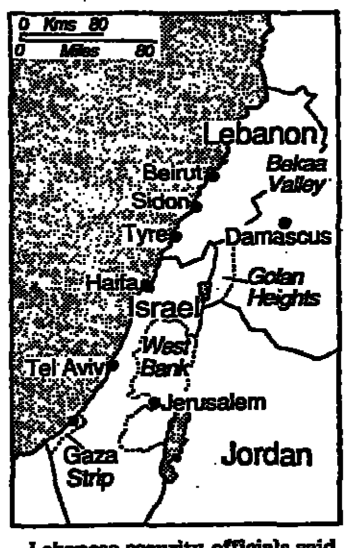
Both the Israelis and Syrians, however, appeared anxious to avoid a direct conflict in the area, which is deep inside southern Lebanon and north of the Israeli security zone, amid fears that a clash could escalate into war.

The Israeli troops were said to have engaged in a fierce clash following an armoured thrust northwards towards the Bekaa valley, which is controlled by Syrian forces.

In the face of eyewitness reports of engagements in Lebanon, however, Israeli army spokesmen were still insisting last night that the events in the area were "routine."

These denials notwithstanding, there was speculation that after days of mock raids, Israel might have begun the long-threatened retaliation for the Palestinian guerrilla attack on an Israeli army base three weeks ago – in which six soldiers were killed.

In apparent preparation, an emergency call-up of a class of Israeli reservists, to report to the Lebanon border area, is understood to have taken place on Sunday night.



Lebanese security officials said the targets of the Israeli incursion appeared to be a trio of large, widely-separated villages in the southern part of the Bekaa.

These were named as Meidoun, KfarHouneh and Ein al-Tineh, about 14 miles due north of the *Israeli frontier.*

As panicky reports spread throughout southern Lebanon that a fresh Israeli invasion was underway, hundreds of Iranian-backed Hezbollah guerrillas and members of the pro-Syrian Amal militia were mobilised.

Residents of the Bekaa valley said the area was calm later after clashes.

It was from the southern Bekaa, a stronghold of the Hezbollah organisation, that four motorised hang-gliders manned by radical Palestinian fighters took off on November 25 in an audacious night-time raid against Israel.

The success of the attack has been cited by Israeli leaders as one of the causes of the wave of disturbances during the last week in the West Bank and Gaza, which have already claimed more than a dozen lives and show no sign of abating.

Israel had been urged strongly by the US and other foreign governments not to retaliate for the hang-glider attack against targets identified with Syria.

Israeli policymakers were placed in a difficult position this week by the public acknowledgement of General Mustafa Tlas, the Syrian Defence Minister, that Damascus had indeed been behind the incident.

Any Israeli military thrust into Lebanon, where Israel and Syria *have long competed for paramountcy,* would almost certainly have to have been cleared beforehand with Washington.

Violence sweeps 'forgotten' Gaza, Page 4

International condemnation of Gaza violence increases

INTERNATIONAL condemnation of Israel over its handling of the continuing violent disturbances in the *occupied territories* grew yesterday, as troops shot dead at least two more Palestinian demonstrators in the Gaza Strip, our Jerusalem Correspondent writes.

Reports from Gaza said that as many as four youths may have been killed yesterday in separate incidents, bringing the Palestinian death toll in the past week to 12.

***Scores of others have received bullet wounds.* Government sensitivity to the chorus of foreign criticism, led by the US and France, is becoming increasingly evident.**

Mr Yitzhak Shamir, the Prime Minister, publicly defended the use of live ammunition to quell the disturbances, and reportedly discussed with other politicians the possibility of banning foreign journalists *from covering the disturbances.*

In the midst of the worst disturbances for many years in the West Bank and Gaza, Army Radio – which has a wide circle of listeners – yesterday led its main evening news programme

Continued on Page 20

Oil prices hit lowest levels as markets weigh Opec accord

By RICHARD JOHNS IN VIENNA AND LUCY KELLAWAY IN LONDON

OIL PRICES fell to their lowest levels for nine months yesterday as the oil markets weighed the consequences of Monday's effective agreement by the Organisation of Petroleum Exporting Countries on quotas and prices.

In London the price of Brent crude fell by 70 cents to $16.05 a barrel, representing a fall of about $1.50 cents since the agreement was reached.

Oil traders agreed that the meeting, which agreed to extend production quotas and to maintain the reference price at $18 a barrel, had been a disappointment.

They had hoped that divisions between the Arab members would not have proved so deep as to prevent Iraq from joining the output pact. One trader described the new quota, *which* put a 15.06m b/d ceiling on the output of the other 12 members, as "the status quo with window dressing".

Market participants are anxious that a sharp fall in prices could occur at the beginning of next year, unless production can be constrained to match a fall in demand to about 17.5m barrels a day.

However, some traders said yesterday the market had overreacted to the agreement, and argued that a large fall in the price would restore the price towards the offical level.

Saudi Arabia and Kuwait both expressed confidence that price levels could be restored if members restricted their collective output in line with the quotas, and observed official selling rates.

Although the agreement lasts until June, Opec's five-man pricing committee has been instructed to call an extraordinary conference if "they observe any *significant change* in market prices that would affect the price stability."

Members also expressed hope that Iraq might cut its production, which has recently been running at the maximum capability of about 2.7m barrels a day. Sheikh Ali Khalifa al Sabah, Kuwait's Minister of Oil, said yesterday before his departure *from a typically bruising meeting:* "I am not expecting anything. However, I hope they (the Iraqis) will exercise restraint."

Iraq's chief delegate, Mr Issam Abdul-Rahim al Chalabi, is understood to have given the conservative Arab producers of the Gulf an indication that it would do so.

A major flaw in the agreement is the continued refusal of Saudi Arabia and Kuwait to regard output from the Neutral Zone, shared between them, as part of their quotas.

Mr Hisham Nazer, Saudi Minister of Oil, said yesterday the agreement whereby the two *proudcing states made available* to Iraq the 250,000 b/d of "war relief crude" from the zone's output was still in force. The statement conflicted with reports that the arangement had been phased out at the end of August.

Ford discusses joint ventures in Soviet Union

BY ANATOLE KALETSKY IN NEW YORK

FORD the largest US car manufacturer, has been approached by the Soviet Union to discuss a "large range of possibilities" for automotive joint ventures.

Ford said yesterday that the discussions had reached only "a very preliminary stage."

A company official added, however, that joint venture opportunities in the Soviet Union could become increasingly serious if there were signs of a continuing improvement in relations between the two countries after last week's Washington summit.

Mr Harold Poling, Ford's vice-chairman, said in Detroit that the Soviets had expressed interest in setting up joint ventures to assemble cars and also to manufacture components.

Ford officials believe that *small cars, possibly based on the* European Fiesta, as well as medium-sized cars similar to the Scorpio, might be suitable for the Soviet market.

Mr Poling also said that the Soviets might also be interested in Ford's tractors.

He emphasised, however, that there were "great political risks involved in trade with the Soviet Union", citing the possibility of US boycotts such as the one which interrupted nearly all commercial relations between the two countries after the Soviet invasion of Afghanistan.

Ford has not been involved in joint venture discussions with the Soviet Union since the late 1960s. Negotiations then broke down over the Soviet insistence that Ford take payment on its *share of the project in the form* of products, rather than in cash.

• Chrysler, the third biggest US motor manufacturer, has entered a no-contest plea on criminal charges of tampering with the *odometers (mileometers) on* some of its newly delivered vehicles. The vehicles had been used in a testing programme before being sent to dealers.

Texaco plan may force assets sale

BY JAMES BUCHAN IN NEW YORK

TEXACO, the US oil group which sought refuge in the bankruptcy courts from a $10.3bn jury award of damages to Pennzoil, may have to sell assets and face a takeover following a $5bn plan to lead the company out of bankruptcy.

The plan, agreed late on Monday between Texaco's creditors and several big stockholders, includes a $3bn cash payment by the end of March to settle the four-year dispute with Pennzoil.

However, Texaco has attacked provisions of the plan which severely restrict its management's freedom to decide financing for the deal and operate the company.

Creditors are insisting that *Texaco repays about $2bn in* debt arrears, takes on no new borrowings and finances the Pennzoil payment through the sale of assets, including its Canadian subsidiary. The shareholders committee is also demanding a big minority of seats on the board and a lifting of anti-takeover provisions.

The suburban New York group, which was found guilty in the Texas courts of interfering with a Pennzoil contract to buy part of Getty Oil, says it still

Continued on Page 20

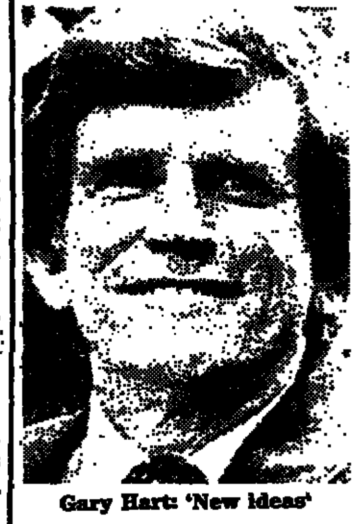
Gary Hart re-enters race for the White House

By Lionel Barber in Washington

MR GARY Hart, the former Colorado Senator forced out of the 1988 US presidential campaign by a sex scandal seven months ago, re-entered the Democratic race for the White House yesterday.

Mr Hart's long-shot comeback caused consternation among his supporters and opponents as well as political pundits, who said his *campaign* debts and lack of national organisation would make a successful bid for the presidency impossible.

Some commentators said Mr Hart's re-entry would further fragment a Democratic race where no clear favourite has



Gary Hart: 'New ideas'

emerged among the six candidates.

However, Mr Hart, 51, told chanting supporters in Concord, New Hampshire: "I believe I represent a brand of leadership that draws its strength from independence."

Mr Hart has been searching for a public role since May when, five days after a newspaper reported he had spent the night alone with a 29-year-old model, Donna Rice, he withdrew from the Democratic race.

Mr Hart was the front-runner *for the Democrats until his withdrawal.* He was helped by his successful "New Ideas" campaign in 1984 when he almost beat Mr Walter Mondale, former vice-president to Mr Jimmy Carter, for the party's nomination.

Mr Hart said he was re-entering the campaign because none of the Democrat candidates had taken up his ideas or emerged as a clear leader.

"I have a sense of new direction and a set of new ideas that our country needs and that no-one else represents," he said.

Mr Hart said his wife, Lee, and his children – all present in New Hampshire yesterday – supported his decision and he acknowl-

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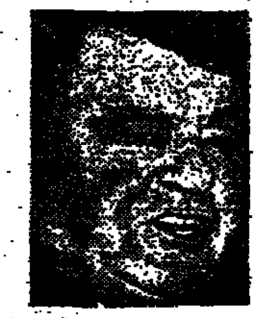

PROTESTS AS BONN CALLS MEDIA TO HEEL

Franz Josef Strauss, leader of the conservative CSU, is at the centre of the media controversy, Page 2

Peter Marsh reports on the European Space Agency's ambitious programme

UK shuns Europe's starry-eyed space plans

"EUROPE expects to be on top in industry and so it needs to invest in technology. The alternative is an agriculture economy."

It is with these sentiments that Mr Sami Gazey, a senior manager at Messerschmitt-Boelkow-Blohm, the West German aerospace company, greeted last month's decision by the 13-nation European Space Agency to spend some $13bn (£7.1bn) by the end of the century on an ambitious series of manned space vehicles.

The programme is strongly supported by France, West Germany and Italy, which are Western Europe's three biggest spenders on space science and technology, but has been shunned, at least for the time being, by Britain.

The UK argument is that manned space projects make little sense commercially and are driven largely by prestige. British officials appear, however, to have been surprised by the degree to which the UK has been isolated from the other main European countries.

One outcome of the UK Government's decision to stay on the sidelines of the new programme is that Britain's aerospace industry will be barred from all but the most minor contracts related to the manned projects.

This is because under ESA rules contracts are awarded to companies in specific countries not on a strictly competitive basis, but according to whether the nation's government is supporting the particular programme financially.

Mr Gazey of MBB is happy because West Germany has agreed to contribute 38 per cent of the costs of Columbus, a manned laboratory for scientific experiments, which is one of the three big manned projects to go ahead after the ESA decision.

As a result of the government backing, MBB will become the lead contractor for the laboratory, which is due to plug in to a US-led international space station planned for the 1990s.

Work on the $4bn Columbus is due to begin in the new year, with up to 100 aerospace companies around Europe employed on the project as subcontractors to MBB.

Mr Gazey, head of MBB's Columbus division, expects his company to receive about $550m worth of ESA contracts directly and also be responsible for managing further contracts worth about four times this figure.

In addition to Columbus, the ESA is about to start a $5bn scheme to build Hermes, a mini space shuttle to service Columbus, and to spend $4bn on an improved version of its existing Ariane rocket, which will carry Hermes into orbit.

Mr Gazey believes that Europe should take a long-term approach to space developments. "You can't always see the commercial objectives straightaway. But this applies in other areas of technology also. You may have to wait 100 years for an invention to become useful."

Eventually, however, Mr Gazey thinks that the cash spent on Columbus will pay off in terms of new materials that are likely to be developed in the low gravity of the orbiting laboratory. These developments could benefit industries such as pharmaceuticals, semiconductors and metal-working. Another possible spin-off is snapshots of the Earth taken from Columbus, which could be used in a variety of applications from monitoring crop growth to checking on the sites of missile silos.

One outcome of the decision to stay on the sidelines is that Britain's aerospace industry will be barred from all but the most minor contracts

For the immediate future, the most direct result of Columbus at MBB will be to secure the jobs of 150 people at the company who have worked, some of them for the past five years, on initial blueprints for the laboratory. Mr Gazey expects to take on 400 more people for the project by 1991.

Mr Jean-Marie Luton, head of the space division at Aerospatiale, France's biggest aerospace company is also highly pleased about the ESA decision. Aerospatiale, which already builds the biggest and most important parts of the existing versions of Ariane, will become the prime contractor for Hermes and is also likely to take the lion's share of the work on the improved Ariane launcher, to be called Ariane-5.

Mr Luton expects the 1,500 people working on space systems at Aerospatiale to grow by a third by 1991 as a result of the new work. He believes the UK may miss out through taking too narrow an approach to space technology. "Hermes is the first stage to giving Europe the capability to organise manned space activities. The commercial benefits will come later, but probably not until the 21st century."

The point is reinforced by Mr Francois Turck, commercial director of space activities at Matra, the French electronics company, which expects to be heavily involved in computer and data systems for all three of the ESA projects. He believes that work in space will ultimately "have a significant impact" in purely terrestrial activities, including robotics.

In Britain, meanwhile, the official government position is that the UK will definitely not have a part in Hermes, but may join Ariane-5, possibly providing a few per cent of the development funds, if it can be proven that the rocket has a commercial future in the satellite launch market in the 1990s.

The UK may also join Columbus, assuming a satisfactory agreement can be worked out between ESA and the US over European participation in the international space station. This agreement was due to have been signed several months ago, but negotiations on the issue are still bogged down over basic questions such as how the station should be managed once in orbit.

For UK's aerospace industry, the lack of decisions means a prolonged period of nail-biting while it waits to see if its exclusion from the main manned ESA contracts will be permanent.

Mr Bill Barbone, a director of Space Ventures, an umbrella group for UK space companies, says he is "a bit disappointed" at Britain's decision not to back any of the manned space schemes.

Mr Peter Conchie, business development manager at British Aerospace, Britain's biggest space company, says he still hopes Britain will decide to participate in Columbus.

He is, however, concerned, about the UK's future position as a member of the European space community. "If the UK sticks to its decision not to be a major player in the manned projects, it is difficult to see how it can influence ESA policy in the future."

Danish Government to hold the line on spending

BY HILARY BARNES IN COPENHAGEN

THE DANISH Government yesterday renewed its commitment, going back to 1982, to prevent real increases in public expenditure. This follows a deal with the opposition last week to facilitate the passage of the 1988 Finance Bill. The deal will increase expenditure next year by DKr2.4bn ($208m), mainly in the form of increased old age pensions and higher unemployment benefits.

"These are one-off increases. It is essential to continue the policy of previous years - an unchanged level of expenditure," said the Ministry of Finance annual budget survey.

The 1988 budget deficit will be a modest DKr2.5bn, or 0.3 per cent of the gross domestic product, compared with a predicted deficit of DKr1.6bn when the draft budget was published in August. Total expenditure, including interest on the national debt of DKr54.1bn, will be about DKr 263bn, compared with DKr253bn in 1987, according to revised budget estimates.

The main point in last week's deal were measures to improve the competitiveness of export industry by 8-9 per cent next year. Several employer social security payments are to be abolished and employers' liability to pay sickness benefits will be reduced from the first five weeks to the first one week of illness, and employers' contributions to a national pension scheme and to accident insurance will be cut.

This, according to the Government, will reduce wage costs by 5 per cent for export industry. The shortfall in revenue will be partially made up by imposing a new tax of 2.5 per cent of value added. This will be levied on the same basis as the normal value added tax and will, therefore, exempt export industries.

Show of strength by Greek unions

By Andriana Ierodiaconou in Athens

DOMESTIC and foreign airline flights were cancelled yesterday, schools and a number of banks closed, and public services including transport and the post office, were disrupted as hundreds of thousands of Greek private and public sector workers staged a 24-hour general strike for higher pay and a shorter working week.

The threat of extensive strike action at the end of November led the Greek Socialist Government to revoke its announced incomes policy for 1988, designed to continue a stabilisation programme based on wage restraint launched two years earlier.

Yesterday's general strike signalled to both government and private sector employers that the wage policy concessions granted so far are not considered sufficient by unions and will not ensure against labour unrest.

Additional trade union demands include a reduction of the 40-hour working week to 37½ hours, full compensation for an estimated 12 per cent loss in real pay during 1986 and 1987 as a result of the economic stabilisation programme, and full index linking of wages.

Portugal to raise taxes by 1%

By Diana Smith in Lisbon

THE Portuguese Finance Minister, Mr Miguel Cadilhe, confidently opened yesterday's debate in parliament on the 1988 budget of the majority Social Democrat government with the presentation of a document he claimed was "neither expansionist nor restrictive".

Mr Cadilhe said it was ignorant to call the budget restrictive.

The Government is adding 1 per cent to the 1988 tax burden, raising the average VAT rate from 16 per cent to 17 per cent, and heavily increasing VAT on electronic appliances in an attempt to curb overheated private consumption. In 1987 this increased by 6 per cent against a government forecast of 3 per cent. Production grew by 4.5 per cent.

For 1988, Mr Cadilhe forecasts 3 per cent growth in consumption, 8 per cent growth in investment compared with 15 per cent this year, and 1 per cent growth in jobs.

Inflation, he insists, will be 6.5 per cent in 1988. It is ending 1987 at about 9.7 per cent. The Government's resolve to peg wage increases to its forecast has led to some tensions with sceptical trade unions. The unions are already in dispute with the administration over proposed labour law changes, making it easier to sack employees.

Mr Cadilhe forecasts that imports, because of cooler investment next year, will grow 6 per cent, against export growth of 5.75 per cent. Under pressure from imports from the European Community - notably from Spain with which Portugal has a $700m deficit - and costlier energy imports, the trade balance has slid deep into the red with a deficit of $2.42bn at the end of September, compared with $1.2bn in September 1986.

Strong invisibles have kept the current account in the black, however. At the end of September it showed a surplus of $690m.

Budget spending in 1988 will be Es2.17 trillion($15.9bn), with a forecast deficit of Es476bn - 8.3 per cent of GDP. Most of the deficit is incurred by servicing the enormous accumulated public debt, which is now Es4 trillion. Cuts in allocations to local authorities have produced angry protests in hard-pressed regions.

The Government plans to be tougher in tax collection after an Es40bn VAT shortfall due to evasion.

FINANCIAL TIMES

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European Diary

David Marsh reports on two cases of political interference with West German television coverage which have sparked controversy in the last week and underlined a subtle influence exerted by the Government

West Germany

Protests as Bonn calls media to heel

TWO cases of political interference in West German television news programmes over the East-West missiles accord have sparked controversy in Bonn and underlined the subtle influence over the media exerted by the West German Government.

A government declaration by Chancellor Helmut Kohl on the arms deal during peak-time television news last week was branded by the Opposition Social Democratic Party (SPD) as an East German-style example of political harnessing of the media.

The affair followed on the heels of the last-minute substitution on Monday night of a top television journalist due to interview Mr Franz Josef Strauss, leader of the conservative Bavarian Christian Social Union, on ZDF, the second German national television channel.

The interviewer was to have been Mr Klaus Bresser, who is due to take over next April as editor-in-chief of ZDF. He was shunted aside after Mr Strauss took issue with comments made by Mr Bresser over journalistic passivity towards politicians in general and the CSU in particular.

The two examples highlight how news editors on both the national channels, the ARD and ZDF, have become progressively less ready to stand up to political pressure in recent years, in spite of clauses in the statutes of both institutions which are supposed to guarantee them freedom from political intrusion.

The Government also exerted sporadic pressure on television during the previous SPD-led administration. But there is general agreement that interference – often carried out in an indirect way by means of politically-motivated appointments and journalistic self-censorship – has increased since Mr Kohl's government came to power in 1982.

Journalists interviewing leading politicians on television are often embarrassingly obsequious and reporting of political events often consists of little more than camera shots of Mercedes limousines carrying coalition chiefs to meetings at the Chancellor's office.

Mr Bresser, who has a reputation for plain speaking, took aim at these deficiencies in a long magazine interview this month. His criticism of two right-wing journalists at the Bavarian Broadcasting Service, Mr Wolf Feller and Mr Guenther von Lojewski, whom he accused of helping to "destroy television," has drawn particular fire from the CSU.

Mr Bresser hit out above all at the frequent practice of filling up broadcasting time with empty statements from politicians. He also said of journalists' uncritical behaviour in interviews with politicians like Mr Strauss: "The deeper one bends, the better one can be kicked."

This was enough to spark an angry reaction Mr Friedrich Zimmermann, the CSU Interior Minister in the Bonn coalition, preventing Mr Bresser from taking part in Monday's programme.

Mr Werner Rudolf, chairman of the German Journalists Association, called the Bresser substitution an act of "censorship."

Mr Kohl's broadcast over the missiles deal, which went out as a government declaration rather than as an interview, was also denounced by the main editors of both channels as a breach of media independence.

Mr Hans-Jochen Vogel, the SPD chairman, claimed he was prevented from speaking on television about the disarmament deal as a result of pressure from the Chancellor's office. Mr Freimut Duve, an SPD deputy, said the episode marked the first time that West German television had adopted the style of "journalism by declaration" as seen on East German television.

Hungary takes tough line with loss-makers

BY LESLIE COLITT IN BERLIN

ONE OF Hungary's largest engineering companies which is bankrupt is to be split into seven on January 1 under a tougher government policy toward loss making enterprises.

Ganz Mavag, producer of locomotives, oil rigs and other engineering products has accumulated debt of Forints 11.5bn ($134m). As many as 1,500 workers are expected to be made redundant, the company said.

It is the second Hungarian engineering company in a month to be reorganised by the Finance Ministry. Ganz Mavag's rolling stock division which ran up the largest losses is to come under government "supervision" while the successor companies will have to negotiate debt repayments with Hungarian banks .

Lang Engineering Works in Budapest said last month that it would be refloated with the help of Forints 104m from the Government to pay some of its Forints 900m debts. Lang has been given three years to solve its problems. The management was reorganised and the earnings of the new ten top executives were directly linked to financial results.

Hungary's Deputy Finance Minister, Mr Laszlo Bekesi, said recently that 156 companies and co-operatives had run up more than Forints 8bn in losses in the first three quarters of the year. Progress in settling their debts was very slow, he said, and acted as a break on the restructuring of the economy.

The Government had decided that in the future it could not grant loans to insolvent companies. Creditor companies which fail to foreclose on unpaid corporate debts after 90 days are to be deprived of state support until liquidation procedures are begun. Commercial banks, he said, would have to review their debt portfolios and create special reserves against bad debt which would limit the total amount of loans they could extend.

Chirac postpones debate on Renault status

BY PAUL BETTS IN PARIS

THE French Conservative Government decided yesterday to postpone the parliamentary debate on the future status of Renault, the state-owned car group, until next month. The move came in the face of fierce obstruction from the Communist party in an attempt to halt the Renault bill.

The Government now plans to push the legislation through the National Assembly at an extraordinary session which is also due to approve new political party financing legislation. The administration of Mr Jacques Chirac had hoped to win approval for the Renault bill before the end this month of the current parliamentary session, the last before next spring's presidential election.

However, the Communists successfully obstructed the debate by tabling 3,500 amendments, making passage of the bill impossible in the time available.

The Government could have short-circuited the debate by turning the issue this week into a confidence motion. But Mr Chirac appeared reluctant to do so. He was widely criticised in the early months of his administration for making excessive use of the guillotine to speed approval of legislation.

A number of cabinet ministers, including Mr Alain Madelin, the Industry Minister, and Mr Raymond Levy, chairman of Renault, had expressed alarm during the past 48 hours about the risks of the Renault bill being shelved indefinitely.

The bill will change Renault from a privileged state-owned *regie* into an ordinary state-controlled company. But, coupled with this change in legal status, the Government has agreed to write off FFr12bn (£1.2bn) worth of Renault debts to restructure the company's debt-burdened balance sheet.

Mr Levy argued last Sunday that the bill and the balance sheet restructuring were crucial elements in the car group's restructuring and its international credibility. Indefinite postponement of the bill risked seriously disrupting the company at a delicate moment in its financial and *industrial turnaround*.

After losing FFr27bn during the past three years, Renault is expected to report net profits of more than FFr3bn this year. But despite this recovery, the fruit of major restructuring during the past few years, the balance sheet will still be weighed down by debts totalling nearly FFr40bn even after the Government's FFr12bn write-off.

The Communists have sought to turn the debate into a political showdown with the Government. The party has also always regarded the car group as a key symbol of state industry in France and one of the traditional bastions of the pro-Communist CGT union.

Italians move on football hooligans

By John Wyles in Rome

MOVES to counter the depressing phenomenon of football hooliganism were discussed by the Italian football authorities and Mr Amintore Fanfani, the Minister of the Interior, yesterday following a serious incident on Sunday at the game between Milan and Rome.

Early in the second half, two explosive fireworks were thrown at the Rome goalkeeper, Franco Tancredi, whose shock was so severe that he suffered a cardiac arrest requiring instant heart massage. This was the third case of fireworks and other missiles being thrown on to a football field in only 11 days, but it is only a part of a much broader spectrum of football violence.

But the attack on Tancredi may force the authorities to focus on a problem which, until now, has received a largely nelsonian blind eye. Stabbings and battles between rival fans are a not infrequent feature of the football calendar, but Italians have wanted to believe that such enormities are an aberration and rather distant from the problems which have plagued the British game.

However, the incident at San Siro in Milan is raising just the same questions about crowd control and social behaviour which have been endlessly debated in the UK. They have an even sharper relevance in Italy because of the huge sums of money needed to sustain the national game and because Italy is hosting the World Cup in 1990.

After Tancredi was felled, some 40,000 people are estimated to have walked out of the Milan stadium, partly in disgust and partly because the result became a foregone conclusion.

Tancredi has made a swift recovery and police have managed to find the 23-year old unemployed man who threw the fireworks at him.

Bonn campaigns to scrap EC internal market barriers

BY WILLIAM DAWKINS IN BRUSSELS

THE West German Government has drawn up an ambitious six-month campaign to dismantle more than two dozen barriers to free trade in the European Community, or make progress towards scrapping them.

Bonn has instructed its EC representatives to exert maximum pressure on their counterparts from member states to agree on a range of free internal market measures during the first half of next year. That is when West Germany takes over as President of the Council of Ministers, the member states' main decision-making body.

The campaign is seen in Brussels as the last chance for at least a year for the Council to catch up on a worrying backlog of legislation aimed at meeting the EC's 1992 deadline for ending internal market barriers.

West Germany hands over the presidency to Greece next summer, followed by Spain at the start of next year. As small and relatively new member states they have less power to force through internal market decisions that often touch on national sensitivities. Bonn has prepared a punishing schedule of five internal market council sessions for the EC's 12 trade and industry ministers, including one with their counterparts in the European Free Trade Association, said German officials.

West Germany is pushing for agreement or significant progress on proposals for common EC standards for engineering machinery, building products and toys, open procurement for public supplies and construction work, Community-wide recognition of professional diplomas and an EC patent law, among other measures.

Bonn's chances of making a mark on the internal market are helped by the fact that many of the proposals have been through the lengthy process of consultation with the European Parliament and are ripe for formal adoption.

Also on the agenda are the controversial proposals for reducing disparities in the rates of VAT charged in different member states. "They of all people will have the opportunity to push forward the VAT package," said a Commission official.

The West German campaign will coincide with a renewed effort by the Commission to put pressure on member states to catch up on Brussels' 300-point internal market programme. So far, the Commission has put forward just over 200 proposals for dismantling trade restrictions, of which member states have adopted 70, well behind schedule.

Commission officials aim to issue up to 20 more by the end of January, including a long-awaited white paper on a Community-wide corporate taxation system, proposals for common copyright rules and measures to liberalise procurement in telecommunications. The Brussels authorities are aiming to have tabled 90 per cent of the 300 internal market proposals by the end of 1988.

THE European Parliament yesterday blocked a trade protocol with Turkey in protest at Ankara's recent jailing of two Communist leaders on their return from exile, AP reports from Strasbourg.

Using its newly acquired powers over the European Economic Community's foreign policy, the parliament refused to vote on a resolution updating the EC's trade agreements with Turkey. Instead, it referred the matter back to the external relations committee.

Yugoslavia to seek IMF aid on debt

By Aleksandar Lebl in Belgrade

THE Yugoslav Government has decided to seek International Monetary Fund assistance to help repay its $20bn foreign debt. The decision has been taken in line with the government's programme to curb inflation and stabilise the economy, and reflects the position of the country's main Western creditors expressed in preliminary consultations.

Yugoslavia is expected to ask the IMF for new loans, accepting the conditions that are certain to be attached to them. The move comes barely a year after the country had rejected IMF supervision of its economy.

Officials in Belgrade said that the government had obtained the federal parliament's approval to negotiate concrete terms with the IMF. They added that the most likely outcome would be a standby agreement for one year followed by a three-year extended fund facility arrangement. The standby credit is likely to amount to $500m with a one-year grace period and repayment over 3-5 years, while the extended fund facility loan would exceed $1bn, with a 3-4 year grace period and repayment over six years.

In May 1986 the new Yugoslav government of Prime Minister Branko Mikulic ended six and a half years of standby arrangements, which many Yugoslavs rejected as "interference" in the country's economy.

A return to the IMF umbrella is psychologically difficult and the government has had to swallow its pride, one Western diplomat said.

In addition to the IMF help, Yugoslavia hopes to obtain in 1988 a total of $600m from the World Bank, including a new structural adjustment loan of $200-$350m over two years, and a $100-$150m tranche of loans for export oriented projects.

Official creditors will be requested marginally to increase their loans, from $1bn-$1.5bn, to less than $2bn. Commercial banks should also provide some fresh money.

Yugoslavia defaulted on payment of some $250m last June and July, and agreed a standstill on principal repayments with commercial bank creditors until a rescheduling agreement was signed, that being conditional on the IMF giving the green light. The standstill is still in force and may be until well into 1988.

Last year Yugoslavia repaid, and partly prepaid $1.5bn, and so far this year another $700m. It was warned by international financial institutions that this would create a $1bn gap in its curent account this year but believed it would get some new money from various quarters, mainly from promised access to financial markets, which did not materialise.

French industrialists report better year

BY IAN DAVIDSON IN PARIS

FRENCH industrialists reporting improved results this year outnumber those reporting worse results by two to one, according to a year-end poll conducted for the Figaro newspaper. The proportion of businessmen expressing support for the policies of Mr Jacques Chirac's government is an overwhelming 80 per cent. But the business community shows much less optimism about next year.

Meanwhile, an opinion poll of the general public confirms once more that Mr Francois Mitterrand remains the favourite for re-election to the presidency – if he decides to run. As in many previous polls, he would defeat either Mr Jacques Chirac, the current Prime Minister, or Mr Raymond Barre, the leading Conservative candidate. If Mr Mitterrand decided not to run, Mr Michel Rocard, a former Socialist Minister of Agriculture, could expect to defeat Mr Chirac, but would be defeated by Mr Barre.

In the industrialists' poll, 46 per cent claimed that their companies would turn in a better result this year than in 1986, compared with 26 per cent registering a worse result. Some 41 per cent claimed that their investment had gone up this year, compared with 19 per cent who said it had gone down.

But more than half of the industrialists questioned (54 per cent) said they were either rather or very pessimistic about the economic outlook for 1988. The vast majority of them expected very low growth next year, and an only slightly smaller majority expected a devaluation of the franc next year.

Some 44 per cent thought the French economic growth rate would be between 0 and 1 per cent next year, and another 39 per cent that it would be between 1 and 2 per cent. Just over two thirds (67 per cent) expected the franc to be adjusted downwards inside the European Monetary System, but only 1 per cent thought the franc would leave the EMS. Surprisingly, 73 per cent expected the stock market to rise slightly in 1988.

Despite their overwhelming support for the policies of the Chirac government, the business community appears to have switched its allegiance substantially away from Mr Chirac personally towards Mr Barre, his chief conservative rival in the forthcoming presidential election.

Whereas a year ago Mr Chirac outdistanced Mr Barre in the favour of the businesss community by 43 per cent to 30, the latest poll reverses their rating (44 to 36 per cent). A similar switch has taken place in party affiliation: a year ago the neo-Gaullist RPR party was much the most favoured by business leaders (48 per cent, compared with 25 per cent for the centrist UDF), but today the RPR has dropped back to 38 per cent and the UDF risen to 31 per cent.

Most surprising of all, in a list of popular personalities, Mr Jacques Delors, a former Socialist Finance Minister and now president of the European Commission, comes fourth, after Mr Chirac but ahead of Mr Barre.

France abandons money supply target

BY GEORGE GRAHAM IN PARIS

FRANCE has finally abandoned one of its two monetary goals in the face of a shift of savings patterns which have pushed money supply growth far beyond the target band.

Mr Jacques de Larosiere, governor of the Bank of France, yesterday announced that no target would be set for M3, the broader of the two money supply measures, in 1988. For M2, the narrower and slower-growing aggregate, the same 4-6 per cent growth target has been retained.

By the end of October, M3 had grown by an annual rate of 9.9 per cent since the last quarter of 1986, compared with a target band of 3-5 per cent. M2 had grown by 4.2 per cent, at the lower end of its band.

Mr de Larosiere said the overshooting of this year's M3 target was largely explained by a shift of savings from long-term investments not counted as money, into shorter-term instruments, such as certificates of deposit, which are included in the money supply measure. This substitution did not create an inflationary risk, he said.

About one-third of the M3 overshoot, however, was explained by the rapid growth of lending, and the Bank of France is to set up a new measure of total internal lending in order to keep a watch on the surge in consumer credit.

Consumer loans have risen by 80 per cent in the last two years to FFr212bn (£21bn) by the end of June, the Bank of France said. Total bank lending has risen by 14 per cent in the same period.

Mr de Larosiere said that personal loans still made up only about 5½ per cent of total lending, but they were a sensitive sector from the point of view of consumption and of the trade balance.

The governor said the domestic monetary targets remained of prime importance in the determination of interest rate policy, but acknowledged that France had to concert closely with other major industrial nations because of the pressure on its exchange rate.

He warned that the undervaluation of the dollar was already beginning to have recessionary effects, causing export difficulties for the economies of a number of countries, as well as creating inflationary pressures in the US. He called for the stabilisation of exchange rates at realistic and credible levels.

Grin and bear it, says Goria as strikes bite

BY JOHN WYLES IN ROME

ITALIANS were yesterday urged by their Prime Minister, Mr Giovanni Goria, "to grit your teeth" in the face of damaging transport strikes which the official trade unions have been powerless to control.

Before leaving for the US on a government flight untroubled by a lightening strike of ground staff at Rome's Fiumicino airport, Mr Goria suggested that the strikes were the price to be paid for maintaining an anti-inflation pay policy and the cohesion of the trade union movement.

In reality, both were looking pretty second-hand yesterday. The second successive day of airport strikes was clearly a protest at the pay and hours deal negotiated by union leaders over the weekend, which Alitalia is insisting can suffer no further amendment.

The stoppages suggest that for the moment, the three union confederations have little authority over their 24,000 ground staff members and, therefore, diminishing credibility as negotiating partners with Alitalia.

The weekend agreement is reckoned to be worth a 25-26 per cent pay rise by early 1991 – considerably in excess of Mr Goria's guideline attempting to limit annual increases to 5 per cent. The Transport and Labour Ministers who mediated the negotiations claim that the Prime Minister's pay norm was for the next three years and that, over that period, the increases are worth around 20 per cent.

The suggestion is that the increases, which include indexation and seniority payments, can be justified by productivity concessions and restructuring of pay grades which the unions have accepted.

Leaders of the three confederations were discussing yesterday how next to try to sell the agreement to their members. Rank and file spokesmen say that the length of the deal (three and a half years) and the minor concessions on demands for a cut in the 42-hour working week are the most serious points at issue.

Meanwhile, Alitalia was managing to run around half its scheduled flights yesterday afternoon, after a disastrous start when airline and passengers were both caught unawares by the unofficial stoppage. Foreign airlines were also suffering serious delays in their operations because of cargo handling difficulties.

EC-ACP talks on sanctions

By William Dawkins

THE EC has agreed in principle to meet representatives of the 66 African, Caribbean and Pacific (ACP) states to discuss possible sanctions against South Africa, despite strong opposition from Britain.

But the accord falls well short of ACP demands for an urgent meeting with all EC foreign ministers. Member states have refused to set a firm date or a venue for discussing possible joint sanctions and would only agree to a much smaller scale session than the ACP is asking for.

Lange hits out at France

BY DAI HAYWARD IN WELLINGTON

THE New Zealand Prime Minister, Mr David Lange, made a fresh attack on France yesterday for flying the secret service agent Alain Mafart, convicted for his part in sinking the Greenpeace vessel Rainbow Warrior, back to Paris.

He suggested France had gone back on a promise to the United Nations by bringing back Mafart on health grounds without consulting Wellington. Mafart and fellow agent Dominique Prieur have been detained in the French Pacific atoll of Hao under a Paris-Wellington deal brokered by the UN.

Mafart and Prieur were convicted of complicity in the bombing in New Zealand of the Rainbow Warrior in July 1985. Under an agreement prepared by the UN Secretary-General they were transferred from jail in New Zealand to serve three years at the Hao military base.

Bordeaux wine exports decline

BY NICHOLAS FAITH IN PARIS

EXPORTS OF Bordeaux wines fell by 3 per cent in volume to 1.589m hectolitres and by 14 per cent in value to FFr3.227bn (£322m) in the year to the end of August.

Sales to the US were particularly badly affected, dropping by 35 per cent to 147,251 hl, representing a mere 9 per cent of exports, the lowest proportion for a decade. Not surprisingly, stocks are at a record level of 6.727m hl, enough to fill 900m bottles and representing approximately two years' total sales.

These figures were announced yesterday at the annual press conference of the trade's governing body, the Conseil Inter Professionel du Vin de Bordeaux. The stocks would have been much greater if the 1987 harvest had been bigger. As it is, the estimated total is 4.4m hl, a reduction of more than a fifth from last year's record harvest.

The quality of the 1987 harvest was very mixed, with the Merlot variety planted in Saint Emilion being more successful than the Cabernet Sauvignon which predominates in the Medoc.

Mr Hubert Bouteiller, president of the CIVB, was at pains to minimise the extent of the increasing outside investment in the Bordeaux vineyards. "I am quite happy and relaxed about it," he said, claiming that only a thousand hectares, less than 1 per cent of the total vineyard area, changed hands last year.

Andrew Whitley on the outburst of resistance to Israeli occupation

Epidemic of violence sweeps through 'forgotten' Gaza

"THAT POOL" said the United Nations official, gesturing towards a dank, lifeless pond of grey sludge fed by a fetid stream "is famous throughout the world."

As he spoke, a fresh crackle of gunfire broke out a few hundred yards away. The wail of ambulance sirens could be heard in the distance. The Jabaliya refugee camp, previously known – at least in the development world – for its notorious lack of sanitation and abysmal living conditions, was fast acquiring a new reputation as a hotbed of resistance to the Israeli occupation.

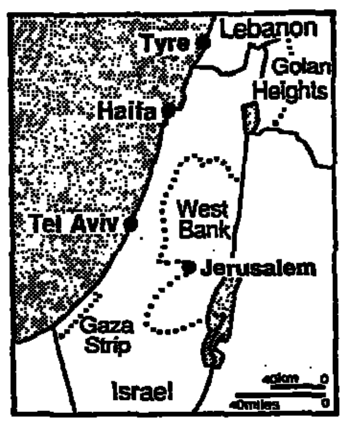
A teenager from the sprawling camp, said to have lobbed a Molotov cocktail at a passing army patrol, had been shot dead that morning; one day last week, many others were injured. At least 12 Palestinians, among them children as young as 11 years old, have been killed in the epidemic of violence which has swept through Gaza and the West Bank over the past week.

They are the victims of Israeli soldiers who, in the mechanical, ritualistic jargon of the military spokesman, are said to have "found themselves in life-threatening situations."

Their deaths have inflamed passions throughout the occupied territories. But to Prime Minister Yitzhak Shamir and the Israeli right, the latest disturbances are simply another wave of externally fomented unrest which, with proper firm handling, will die away naturally.

To the liberal press and part of the Labour Party, they have been a cause for much predictable hand-wringing and bewailing of Israel's fate if it does not quickly act to remove "this demographic time-bomb." A recent Civil Administration report forecast that Gaza's population could top 1m by the year 2000.

Praising Mr Shimon Peres, Labour's leader, for his courage in uttering some home truths about Israel's unhappy relationship with Gaza, the Ha'aretz newspaper roundly denounced the cavilling and indecision of most Israeli politicians on the subject. "Never has an issue so



crucial to the country's future been handled in a manner so bungling, uncertain and apologetic as in the case of our struggle to survive as a Jewish state," the august daily concluded.

The Gaza Strip, tagged onto the West Bank almost as if it were an afterthought, in many ways can lay greater claim than its better known partner in wedlock to being the authentic heart of the Palestinian question. Its boundaries determined by the 1948 and 1967 armistice lines, the scrap of sandy Mediterranean coastline known as the Gaza Strip is the only remaining part of long-departed Ottoman Palestine to be formally claimed by no other country.

Mr Shamir may claim, as he did in July, that Gaza is part of Eretz Israel, the Biblical "Land of Israel," and is "not negotiable." King Hussein of Jordan may insist that the future of the strip cannot be separated from that of his former territory on the West Bank.

But the reality, as far as Gazans are concerned, is that they are stateless and in a strange limbo which has even stripped them of their identity as Palestinians – a term Israel has spent nearly 40 years strenuously trying to consign to the dustbin of history.

Travel abroad, when not barred by the Israeli authorities on "security grounds," is made particularly difficult by the lack of internationally acceptable identity documents. With few exceptions travel to Israel is permitted only for the purpose of daytime labour. At night the Gazans must return home or face arrest.

A majority of the Strip Arab residents classify themselves, or are classified by the United Nations, as refugees from present-day Israel. But at the same time, fully 60 per cent of that number are aged under 19 and were therefore born under the occupation.

It is this new generation, which has known nothing other than Israeli military rule and has no hope of an improvement in its situation, which is beginning to rebel. Better educated than their forbears, but seething with frustration at the lack of opportunities for advancement, secondary school and university students have begun to take to the streets in increasingly bold confrontations with Israeli troops.

As if the overcrowding were not already bad enough, thrust into the Gazans' midst, like a painful thorn into an animal's side, are some 2,500 militant Jewish settlers occupying nearly 30 per cent of the available land. The settlers' presence has been a constant source of friction.

In reality, the social and economic situation in Gaza – grim though it may look from indicators such as the collapse of the traditional citrus industry – is not as dismal as it is usually painted by outsiders. Nor is the burden on Israel nearly as heavy as is customarily presented by that country's leaders. Behind the surface grime, there is an occasional sparkle of elegance from husbanded traditional family wealth; a reminder that Gaza City, for all its contemporary air of Third World squalor, used to be one of the jewels of British Mandate Palestine.

One source of new prosperity is business with Israel, responsible for over 90 per cent of the region's imports – $375m in 1986. A handful of young Palestinian entrepreneurs, acting as sub-contractors to Israeli factories, are doing well out of a budding re-export trade. They shun publicity and do not aspire to political leadership – the commodity in shortest supply in Gaza – but they are one of the few hopeful signs for the future.

On the other hand, by opting out of any political role at the present time, Gaza's businessmen are aggravating the dearth of local leadership. The best of the generation which grew up after 1948 have long gone and an enormous gulf has grown up between the older traditional leaders and the young people now taking to the streets.

The spark for the latest wave of disturbances may have been the deaths a week ago of four workers returning from Israel by car, crushed by an army articulated truck at the entry checkpoint to the Strip. But the tinder was already dry.

Following his appointment as Defence Minister in October 1984, Mr Yitzhak Rabin has proved to be one of the toughest administrators the occupied territories have known. During his tenure, the rate of deportations to Jordan of Palestinian activists and troublesome figures such as newspaper editors has increased sharply. So too has resort to administrative measures such as detention without trial and the demolition of houses of accused "terrorists."

Two prominent, but very different, activists currently facing deportation are Mr Mubarak Awad, a Palestinian American who advocates a campaign of non-violent civil disobedience, and Sheikh Abdul Aziz Owdeh, a Gazan religious leader accused of being a mastermind of the shadowy underground movement known as Islamic Jihad.

The surfacing of Islamic Jihad earlier this year in a series of bloody clashes with Israeli security forces, mainly in Gaza, may be a harbinger of things to come. But, like the spectacular hang-glider attack last month on an Israeli army base near Lebanon by a lone Palestinian gunman, the real threat from Islamic Jihad comes from the way it has served as an example, and inspiration, to a much wider stratum of previously quiescent Palestinian youth.

An Israeli soldier patrols the rooftop of Trade Minister Ariel Sharon's controversial new house in predominantly Arab old Jerusalem, passing a large Jewish candelabra used to mark the Hanukka festival which starts today

US criticises Israeli attacks

THE US and other countries have criticised Israel's handling of the anti-Israeli protests, seen by some analysts as a popular revolt by Palestinians made desperate by 20 years of Israeli occupation, Reuter reports.

The Emir of Kuwait has urged all Islamic countries to support Palestinians while the Arab League, at an emergency session yesterday, condemned what it said were Israeli massacres of Arabs and Palestinians.

France, China and the UN have joined the Arab World in condemning Israel's policies and Yugoslavia, which gives material and moral support to the PLO, criticised "violence against Palestinians by Israeli military and police organs."

The facts about the Gaza Strip and West Bank, occupied by Israel since their capture from Egypt and Jordan in the June 1967 Middle East War:

WEST BANK

POPULATION: 750,000 Palestinians, about half of them refugees from wars in 1948 and 1967, and 60,000 Jews who have settled there over the last 20 years.

AREA: 5,878 square km (2,270 square miles) on the West Bank of the Jordan River.

ECONOMY: The majority of the work force are farmers. Palestinians say more than 95,000 workers in the West Bank depend on Israel for their employment.

MODERN HISTORY: The West Bank was annexed by Jordan in 1948 when British mandatory rule ended over Palestine. It was captured by Israel in 1967. Yasser Arafat's Palestine Liberation Organisation (PLO), outlawed by Israel, is said by local activists to be the leading political force. Israeli military authorities rule by a combination of army orders and former Jordanian law.

RELIGION: Most of the population is Sunni Moslem, with sizeable Christian minorities in the towns of Bethlehem and Ramallah.

GAZA STRIP

POPULATION: 650,000 Palestinians, about half of them refugees from wars in 1948 and 1967, and 2,500 Jews who have settled there since 1967.

AREA: 363 square km (140 square miles) on the Mediterranean coast between Israel and the Egyptian Sinai Desert.

ECONOMY: About half the 120,000 labour force work in Israel. Many local residents are farmers and fishermen. About 4,000 Palestinians work for the United Nations Relief and Works Agency (UNRWA) for Palestinian refugees.

MODERN HISTORY: The Gaza Strip was administered by Egypt from the end of British rule in 1948 and captured by Israel in the 1967 Middle East War. The PLO is said by local activists to be the leading political force, although membership of Islamic fundamentalist groups is on the rise. The area is ruled by Israeli military orders and former Egyptian law.

RELIGION: Most of the population is Sunni Moslem.

S Korean voters hold their breath

By Maggie Ford in Seoul

ALL-NIGHT party preparations were in full swing yesterday as South Korean voters prepared to watch the result of their first democratic presidential election for 16 years.

Hotels were fully booked by groups planning to monitor television reporting of the count, and telephone wires were buzzing with last minute family discussions about the vote. Younger family members, especially those in the educated middle class, made last ditch efforts to persuade their more conservative parents to vote for one of the opposition candidates.

Rumours of military intervention and threats to stability and economic growth if the government candidate was not elected have stirred fears about the risks of democracy, and practically no-one in South Korea was yesterday prepared to predict the result.

Three main candidates are standing – Mr Roh Tae Woo, of the ruling party, and two men for the opposition, Mr Kim Young Sam and Mr Kim Dae Jung. The vote is expected to be extremely close.

Election fever easily eclipsed interest in the arrival at Seoul airport of an Asian woman suspected of being involved in the disappearance of a Korean Air jet last month. North Korean terrorism is thought to be linked to the possible crash of the airliner, still unconfirmed.

Around 50,000 police and 80,000 student volunteers are to be deployed around polling booths today to prevent violence and to watch out for election fraud. Opposition candidates have claimed that bribery and corruption have already tainted the election, but at least in urban areas, voting is expected to be conducted fairly.

Calculations about the winner yesterday focused on the two opposition candidates, both standing on a platform of ending military rule. The ruling party candidate, a former general, has promised a more democratic society in the wake of the demonstrations in June.

Mr Kim Young Sam was thought to be slightly ahead of Mr Kim Dae Jung, with Mr Roh running third.

The influence of the educated middle class in today's vote is likely to be crucial, as it was in the June demonstrations which led to today's election. Yesterday, the middle classes appeared to be standing firm in their plans both to vote for the opposition and to happily accept either Kim as president, but were worried that their parents' conservatism would surface in the voting booth. The winner was anybody's guess.

Arab League accuses Israel of repression

THE ARAB LEAGUE yesterday condemned what it said were Israeli massacres of Arabs and Palestinians during violent protests in Arab territories against the Israeli occupation, **Reuter reports from Tunis.**

Israeli forces, which have killed at least 10 Palestinians during riots in the West Bank and Gaza Strip, attacked hospitals and fired on unarmed crowds after hemming them in with tanks, a communique from the four-hour emergency session yesterday said.

During the past week of protests, Israel had practised "all forms of repression, having recourse to terrorism and crowds of Arabs and Palestinians to massacres," it said. The Israeli action had resulted in "dozens of deaths and hundreds of wounded."

The meeting of the 21-member Arab League, which was requested by the Palestine Liberation Organisation (PLO), made an urgent call to the United Nations to protect Palestinians in areas occupied by Israel since the 1967 Middle East War.

PLO leaders have called for UN intervention to halt the violence by means of an international force or observers.

Lebanon sortie raises risk of further escalation

BY ANDREW GOWERS, MIDDLE EAST EDITOR

ONLY A couple of hours before Israeli troops advanced from their lines in eastern Lebanon yesterday, President Chaim Herzog of Israel was waxing lyrical at a press conference in London about what he described as a new atmosphere favouring peace between Arabs and Israelis.

"Ten years ago, we were hermetically sealed in on all our borders," he said. "Today...peace is not a dirty word any more."

That may be true, but yesterday's attack illustrates the continuing volatility of the situation on Israel's northern border. They also show that the hard-won withdrawal by Israeli troops from most of Lebanon has done very little to solve the long-term problems in the country's relations with its northern neighbour.

More than two years ago, when the troops had finally pulled back to their self-declared "security zone" in southern Lebanon, Israel's coalition Government, then led by Mr Shimon Peres, was widely congratulated for extricating the country from its traumatic Lebanese adventure. Today, things are almost back to square one.

The immediate spark for yesterday's operation was provided by the audacious Palestinian hang-glider raid on an army camp in northern Israel three weeks ago, in which six Israeli soldiers were killed.

But those were only the latest in a long line of incidents involving loss of Israeli lives in the area. This year, Israeli forces and their proxies who patrol the security zone, Col Antoine Lahad's South Lebanon Army, have had to cope with a series of increasingly effective attacks from militant Shi'ite groups operating close to the Israeli lines.

The hang-glider attack, however, raised concerns and dilemmas of a different order for the Israelis. In the first place, it was the most damaging Palestinian sortie into Israeli territory in a decade.

Second, as Mr Yitzhak Shamir, the Prime Minister, pointed out, the attack – claimed by Mr Ahmad Jibril's PFLP-GC, an extremist splinter group – bore the imprint of direct Syrian assistance. Both the Israelis and the Syrians have generally been most wary in the past about becoming involved in direct confrontations.

Third, Israel has come under strong, perhaps unprecedented pressure from Western and other friends to abstain from punitive retaliation in recent weeks, especially during last week's superpower summit in Washington.

Now that Mr Gorbachev has gone home, Israel's hands have been untied – but only up to a point. All the indications yesterday were that the Israeli thrust was limited in scope, and that the Syrian troops dug in only two miles away from the fighting were keeping a low profile.

But there remains a risk of further escalation, and it is one that the Israelis, with memories fresh from their earlier Lebanon debacle, are singularly ill-equipped to deal with.

Mexico secures wage agreement with unions

BY DAVID GARDNER IN MEXICO CITY

THE MEXICAN Government yesterday slotted into place a third element in the radical anti-inflation package it is unveiling by stages, when trade unions accepted a wage offer they had earlier rejected.

This clears the way for the remaining ingredients in the programme, which until midday yesterday consisted of Monday's 22 per cent devaluation, complemented by the slashing of tariffs on imports by more than half from yesterday morning.

The next stage of the plan, which officials said would be announced last night, is expected to detail budget cuts equivalent to 1 per cent of gross domestic product – and which could include the closure of public sector companies such as Aeromexico, the flag airline, and even ministries – complemented by a revenue increase equal to 2 to 3 per cent of GDP, mainly through big one-off price increases on goods such as fuel.

The Government is also expected to fix the exchange rate at its new level until March, and to announce a system of voluntary price restraint it is hammering out with the private sector.

These two measures would be the quid pro quo for the official trade unions, which had threatened to launch a general strike this Friday unless their demand for an emergency 46 per cent wage increase was met.

Instead, they are getting 15 per cent now, and 20 per cent in January, when the quarterly wage round begins. From March, however, after the economy has had time to absorb these shock measures, wages will be indexed to inflation, union and government officials say.

A system of forward indexation will be used, whereby the lead indicator is the expected rate of inflation for each month.

Measures announced earlier include the opening of trade frontiers to a degree unprecedented in Mexico's modern history, with import duty more than halved.

In liberalising far more quickly and extensively than planned, the Government is using cheaper imports, or the threat of them, as a key element in its increasingly desperate fight against inflation, which is now running at 144 per cent annually, according to official figures.

The top tariff rate has been cut from 40 per cent to 20 per cent and, in addition, the 5 per cent surcharge levied on imports has been abolished.

The aim, senior finance officials say, is to achieve a weighted average tariff of 12 per cent next year. This is substantially below the tariff reductions Mexico is committed to by virtue of its entry into the General Agreement on Tariffs and Trade (Gatt).

A budget adjustment of the magnitude envisaged by the Government would more or less take care of what is defined both by the Government and the IMF as the "adjusted operational budget deficit." This is what remains once the purely inflation-caused portion of interest payments on domestic debt is discounted.

The "nominal" deficit, which takes full regard of inflation and interest payments equivalent to 60 per cent of the budget or 21 per cent of GDP, is running at about 18 per cent of GDP, officials say.

The degree to which a consensus can be reached to restrain prices will be crucial to the plan's success.

SDI split remains, say Soviets

By Our Foreign Staff

THE SOVIET Union confirmed yesterday that fundamental differences remained between Moscow and Washington over the development of space-based defence systems in spite of the joint statement on the subject issued after the US-Soviet summit last week.

Mr Boris Pyadyshev, the Soviet Foreign Ministry spokesman, said the statement agreed by Mr Mikhail Gorbachev, the Soviet leader, and President Ronald Reagan in Washington would bar the so-called "broad" interpretation of the 1972 Anti-Ballistic Missile treaty.

The broad interpretation, advanced by the US Administration, would permit space testing of the Strategic Defence Initiative (SDI). Moscow says this is prohibited under the ABM treaty.

Mr Pyadyshev noted that a joint statement after the summit had specified that the two sides were committed to observe the treaty "as signed in 1972" while conducting research, testing and deployment. However, US officials stressed that the statement allowed testing "as required".

Mr Pyadyshev said: "This means the two sides have recognised that the ABM treaty must be enforced in the form in which it was signed in 1972, and not in the way it is currently being interpreted in the broad sense by some American interpreters of the treaty."

The wording of the joint statement had been seen earlier as an indication that the two sides had "agreed to disagree" on the issue of SDI testing, which has frustrated previous efforts to reach accord on long-range nuclear weapons reductions.

Mr Reagan has made clear since the summit that he does not intend to compromise on SDI development, and analysts said the Soviet position as enunciated yesterday could lead to a resurgence of the chief obstacle to a strategic arms treaty (Start).

Conflicting views of US economic future

BY ANTHONY HARRIS IN WASHINGTON

BUSINESS economists are more pessimistic about the prospects for the US economy than are independent economic forecasters, according to the latest soundings of both groups.

The business group appears to have been much more impressed with the potential economic results of the stock market crash of October 19 than the independents. Both, however, have proved persistently over-pessimistic in earlier soundings over the last 15 months.

Half of a sample of 200 business economists surveyed by their own national association expect a recession to begin during 1988, according to results released yesterday. In September, by contrast, when the association held its annual conference, the popular choice for a starting date was 1989.

In November a survey of the independent forecasters, mainly in the financial sector, published by Blue Chip Economic Indicators, showed only 22 per cent expecting a downturn during 1988, with 52 per cent still expecting the economy to go on growing until 1989. They expect the recession, when it comes, to be brief, lasting perhaps two quarters.

Only 13 per cent believe there is any risk of a depression – defined as two years of negative growth with continuous high unemployment. These extreme pessimists are balanced by an equal number of robust optimists, who are not expecting a downturn before 1990, and see no reason to forecast one then.

The contrast between the two groups is probably explained by the larger size of the National Association of Business Economists sample, with correspondingly slower sampling.

The pessimism of the business economists does not appear to reflect the experience of the companies which employed them. In September, when more than half were expecting a recession by 1989, a three-to-one majority reported a sharp improvement in activity and order books in their own companies.

US trade deficit a record

THE DEFICIT in the broadest measure of US foreign trade swelled to a record $43.4bn for July through September this year, pushing the country deeper into debt, **AP reports from Washington.**

The Commerce Department said yesterday that the imbalance in the nation's current account rose 5.3 per cent from the $41.2bn imbalance recorded from April through June, the previous record.

The current account is considered the most important trade figure because it measures not only trade in merchandise but also trade in services, primarily investment flows between countries.

In a sign of how the country's international fortunes have dwindled, the Government reported that the country paid out more to foreigners on their US holdings than Americans earned on their overseas investments. While it was only a small imbalance of $600m, it marked the first time that American investments had failed to be in surplus in 29 years.

Analysts said this trend would worsen in succeeding quarters as the US has to pay more and more to service the growing tide of foreign investments.

Tim Coone on a country where smuggling has become a way of life

Contraband keeps Paraguay afloat

THE TOWN of Presidente Stroessner is appropriately named. Located close to the border with both Brazil and Argentina, it is a symbol of the ageing Paraguayan President's decaying 33-year-old dictatorship – a shabby, gaudy bazaar, which serves as a free-port and contraband centre for an estimated $1bn worth of goods a year.

Paraguay, with a per capita income of $1,000 a year, has the dubious merit of being one of the world's biggest importers of Scotch whisky and branded perfumes. Only a small proportion stays in Paraguay. Most ends up on tourist coaches or light aircraft, or is simply loaded into trucks or boats and shipped over the frontier into Brazil, where an eager consumer market awaits because of high duties on registered imports.

From dawn until dusk streams of coaches, cars and tourists on foot cross the bridge linking the town with Foz de Iguazu on the Brazilian side. Customs and immigration inspection is cursory.

But Presidente Stroessner and its crowded, littered streets, strewn with discarded whisky packing cases and cardboard boxes, is only part of a much wider economic malaise.

With the end of the boom years during the construction of the Itaipu dam, recession has hit the Paraguayan economy. A government report produced in June last year estimated that real wages in the private sector had declined by 25 per cent and in the public sector by 79 per cent since 1982. Teachers currently earn a mere $40 per month, less than half the official minimum wage. For those with any power, corruption and contraband have made up for the falling value of public sector salaries.

Traditional exports such as soya, cotton, cattle and timber have become important contraband items, slipping both ways across the frontier with Brazil.

Open any Paraguayan newspaper and in the classified ads it is possible to find an almost brand new Ford or Volkswagen from Brazil or a Peugeot from Argentina for about $2,000. They are stolen cars. New licence plates can easily be arranged for the appropriate fee to the right official. Mercedes Benz abound. They are imported through regular channels, but only a token import duty is paid, which probably never finds its way to the Treasury.

The level of corruption of government and army officials is now so endemic that it has ceased to be scandalous. It is simply accepted as part of the Paraguayan way of life and

talked about as openly as the weather. It is one of the ways political patronage is exercised over public sector employees and the armed forces.

A senior military officer in the northern Chaco province is said to run a petroleum racket with imported fuel from Bolivia. Cocaine is also brought in. Cars go in the opposite direction.

According to foreign banking and diplomatic sources in Asuncion, the capital, the level of officially sanctioned contraband would double the official trade figures. This loss is draining the country's foreign exchange reserves, helping to fuel a fiscal deficit estimated at 7 per cent of gross domestic product and creating severe distortions to the economy.

Foreign currency reserves have fallen from $800m five years ago to just over $300m at the end of last year, forcing Paraguay to suspend some interest payments on its debt this year.

"Moreover," says Mr Tito Scavone, the president of Feprinco, Paraguay's private sector federation, "there is no economic plan and no reliable figures on which to base a plan. The Government doesn't talk with us. Our communication is by letters or statements in the press and we receive no official replies to our proposals for change."

According to Dr Roberto Rodriquez, a prominent Paraguayan economist: "For the first time in Paraguay's history the business sector has united with the opposition in criticising the government and its lack of an economic policy. We shouldn't deceive ourselves, though, that a change of regime will solve all our problems. The bribery, corruption and contraband has become generalised throughout society, which is the real social cost of this Government. It is a fact and an argument the opposition politicians don't always like to hear."

Air Canada strike nears resolution

By David Owen in Toronto

THE LABOUR dispute which has grounded Air Canada since November 27 appeared a step closer to resolution yesterday, following the airline's tabling of a comprehensive contract offer.

It is believed to include a formula for the partial indexation of pensions to the cost of living which has emerged as the key demand of the International Association of Machinists and Aerospace Workers. In return the company may be seeking concessions in union restrictions on the use of part-time workers.

Asean nations agree to boost joint ventures

BY RICHARD GOURLAY IN MANILA

THE Association of South East Asian Nations yesterday agreed steps to boost intra-regional trade and to stimulate joint ventures in the six-country bloc.

The moves were announced at the end of the first Asean summit in 10 years. The leaders of Singapore, Indonesia, Malaysia, Thailand, the Philippines and Brunei agreed to reduce the list of items that are excluded from the Preferential Trading Arrangement (PTA) and on which, as a result, full tariffs are paid.

Asean aims over the next five years to reduce the number of goods excluded from the PTA to no more than 10 per cent of items traded and no more than 50 per cent by value.

At present there are about 7,000 excluded items making up over 50 per cent of all regional trade by value.

Mr Jose Concepcion, the Philippine trade minister, said he hoped the measures would increase intra-regional commerce from 19 per cent of all trade to 50 per cent by the end of the century.

On investment, the Asean leaders hoped to stimulate joint venture investment by relaxing its rules. Under existing rules only two joint ventures have been formed in 10 years.

Foreign investors wanting to form joint ventures with Asean companies will be allowed to take up to 60 per cent of the equity against the previous 49 per cent.

Tariffs for the Asean Industrial Joint Venture's are to be cut and the rates charged on competing products are to be no lower for the first four years of production. Asean officials will also draw up a list of pre-approved joint ventures.

The Asean leaders said they hoped 10 per cent of all investment in the region will come from Asean countries by the end of the century. At present it is dominated by US, Japanese and European capital.

Finally, in a bid to build regional capital markets, the leaders endorsed an Asean Reinvestment Corporation to be set up in mid-1988 with an initial paid-up capital of $3m.

Austria keeps open EC membership option

BY WILLIAM DULLFORCE IN GENEVA

AUSTRIA is keeping open the option of applying for membership of the European Community, Mr Alois Mock, its Vice-Chancellor, said yesterday.

He was speaking at the end of a two-day meeting of the European Free Trade Association at which ministers from the six member states co-ordinated policy towards the EC's plan to eliminate its internal trade barriers by 1992.

The Efta ministers will discuss the Community's move towards a single market with their EC colleagues in Brussels on February 2. It will be the first meeting at that level between the two trading blocs on the EC's internal market plan.

The Efta ministers yesterday said they had agreed on the need to remove existing, and avoid new, trade barriers between the two blocs. Such barriers concerned public procurement rules, government aids, export restrictions, regulations on product liability and the protection of intellectual and industrial property rights, they said in a communique.

US, Moscow banks in export finance deal

BY PETER MONTAGNON

SECURITY Pacific Business Finance (Europe), an arm of the Los Angeles-based bank, has joined forces with Moscow Narodny Bank to offer a new factoring service to finance UK exports to the Soviet Union.

In a deal believed to be the first of its kind between a US and a Soviet bank, the two are to offer short term finance arrangements which will allow UK exporters to receive immediate payment on their sales. They aim to cover around 15 per cent or £80m of total UK exports to the Soviet Union within a year.

The scheme involves finance being made available through Security Pacific in return for an assignation by the exporter of his right to receive payment for the sale. Moscow Narodny will guarantee payment by the Soviet importer and organise collection.

It will compete with similar schemes operated by UK clearing banks and the Export Credits Guarantee Department, but is regarded by its promoters as simpler since exporters will not be obliged to put up additional security or arrange an ECGD insurance policy to back up the finance.

Mr Sergey Konychev, director of Moscow Narodny, said yesterday the scheme also responded to new niches that have opened up in the Soviet market with the liberalisation of foreign trading practices and the establishment of joint ventures between Soviet and Western companies.

Decentralisation of import arrangements had not only involved bringing new players into Soviet trade; coupled with the joint ventures it had also introduced a new concept of commercial risk into Soviet trade financing which was still unfamiliar to Western banks and exporters, he said.

The two banks expect to market the service initially to UK exporters, but the scheme will also be available to cover sales by other countries.

Call for law changes on investment in Poland

BY CHRISTOPHER BOBINSKI IN POLAND

INTERPOLCOM, an association representing about 660 small Western-owned companies in Poland, is demanding that the sector be treated on a par with joint ventures with Western capital whose conditions are to be liberalised next year.

Interpolcom has also suggested that foreign investment in Poland should be regulated by one law. So far a mere handful of joint ventures have been established under present strict tax and hard currency profit transfer provisions.

The lack of enthusiasm in the West can be explained by the treatment meted out to the wholly western-owned Interpolcom sector which employs some 60,000 and produces 1 per cent of national income.

Hardline opposition to these companies meant that the origional 50 per cent of tax on profits was raised to 80 per cent and hard currency regulations were tightened for the sector. As a result, the number of companies has slipped from 695 at the end of 1986 to the present 660. In 1983, before the new draconian taxes were imposed, 225 companies were set up while 18 closed.

Last year a mere 26 were established and 41 liquidated. Meanwhile, the Foreign Trade Ministry has unveiled its proposals for liberalising last year's joint venture law. These include a drop in profit tax from 50 per cent to 30 per cent and a lower level to favour exporters. No longer will a Pole have to be the head of a joint venture, and "majority shareholding" by the foreign participant is envisaged.

Interpolcom for its part wants a tax on profits to be set at a general rate of 65 per cent, with concessions, bringing the rate down to 30 or 40 per cent to encourage companies to increase exports or invest in high technology. Hard currency transfer restrictions would also have to be eased if the sector is not to shrink further.

Exports last year by the Interpolcom companies amounted to a mere 5 per cent of total sales while hard currency sales were worth $35m in 1986 and purchases stood at $33.5m.

Danish line sells ships to Singapore affiliate

BY HILARY BARNES IN COPENHAGEN

THE A.P. Moller Maersk Line shipping group has sold four container vessels to its Singapore affiliate, Maersk Company of Singapore, causing speculation that the sale is intended to place pressure on the Folketing (Danish parliament) to improve conditions for vessels sailing under the Danish flag.

Moller, however, said that the sale was made for purely commercial reasons and had no connection with flag problems.

The Maersk fleet of about 120 vessels is one of the biggest privately owned fleets in the world and by far the biggest Danish fleet.

The Folketing is expected to complete legislation this week to set up a Danish International Ships Register.

The measure is intended to counter the transfer of flags on Danish vessels to other countries. About 40 per cent of the merchant fleet is currently sailing under non-Danish flags.

Nancy Dunne in Washington looks at the impact of a ground-breaking bilateral agreement

US-Israeli free trade deal starts to show returns

TWO YEARS ago the US and Israel announced a free trade agreement which set some impressive precedents. It was the first such agreement ever signed by the US and for the Israelis it was the first such pact to encompass all goods.

It also broke ground in that both sides promised to open their markets to each other's services and committed themselves to clarifying complex laws and regulations affecting services.

The pact was to pave the way for the less inclusive US-Canadian bilateral agreement, but it was also designed to send a warning that the US would resort, if necessary, to two-way free trade agreements.

"Other countries have realised," Mr Clayton Yeutter, the US Trade Representative says, "that if they want to continue to have access to the world's largest market, they had better get serious about improving the Gatt."

Another message the US hoped to send – about the wonders of free trade – became garbled by economic pressures.

Israel, in an ultimately successful effort to slash inflation, tied the shekel to the dollar, which was sinking steadily. The US market became increasingly less profitable for Israeli exporters, who seemed, in any case, more comfortable with their long-standing ties to Europe.

The first full year of the free trade agreement ended with US exports sliding from $2.5bn (£1.4bn) in 1985 to $2.2bn last year. The Israelis reported a modest upturn for the year, from $1.7bn to $1.8bn, but the increase was largely the result of movements of industrial diamonds rather than new trade.

The outlook for 1987 is better. In the first six months, two-way trade rose from $2.3bn to $2.7bn and businessmen and trade officials at a recent US-Israeli trade conference in Washington were optimistic.

Operation Independence, a non-profit organisation in the US, Israel and Europe, which aims to help Israel achieve economic self-sufficiency, has set up task forces with prominent business leaders to boost Israeli exports in food, health care

Clayton Yeutter: warning

products, defence equipment, software and household hardware.

A newly established Delaware trading company will, for example, begin marketing Israeli chocolates and gourmet frozen foods this month. Another trading company will distribute Israeli-made spectacles.

Mr Howard Cohen, a vice-president of Operation Independence, says the group is not looking for handouts from American Jews. Israeli products are competitive, he says. "It's got to be *tachlis* (business)."

In addition Israel has become, according to General Mica Paz, a consultant, "the combat laboratory of the world." Many US companies with defence contracts are taking on Israeli partners in research and development.

Another Israeli selling point for joint ventures is its duty-free access to the European Community and the trade benefits it receives as a "developing country" in other European markets, Canada, Australia and New Zealand. But these advantages will fade as its Middle Eastern neighbours become increasingly productive in agriculture and manufacturing.

The US supplies about $3bn in economic and military aid a year to Israel and if it is to be removed from the US welfare rolls it must achieve among other things export-led growth. To do so, Israel must attract millions in new investment – by some estimates as much as $500m a year over the next decade.

But the Israeli Government is facing widespread complaints from US business. Mr Clarence Brown, the US Deputy Secretary of Commerce, put it bluntly: "New laws are passed rather frequently. Some laws have been made retroactive to investment agreements that have already been signed. Various aspects of old laws are also changed."

What is needed, according to Mr Cohen, is a change in "the headset of people in the Government...so they are not inclined to play as an intrusive a role in individual enterprises as they have traditionally played."

Mr Robert Perlman of Intel International, the largest private investor in Israel, drew a vivid picture of the frustration encountered in dealing with the Isreali bureaucracy. The company's $183m semiconductor factory outside Jerusalem has been operationally "an incredible success," he says. But laws have been constantly changed and Intel says it must "travel the breadth of the bureaucracy with no champion."

The company is planning to build another $100m factory, Mr Perlman says, but it will not be in Israel unless the problems encountered at its first factory are solved.

A joint venture created by W.R. Grace & Co, a chemicals and natural resources company, and Teva Pharmaceuticals illustrates what Israel has to offer US business.

Grace, seeking to exploit the US market, searched unsuccessfully for a pharmaceutical company partnership, but the costs of research and development priced US companies out of its range. Eventually a company secretary brought Teva to the management's attention.

Teva had licensing arrangements with large companies and access to more than half of the world's top drugs. Grace invested $21.5m in a partnership and acquired a low-cost US company which produces generic drugs to distribute Teva's products through its outlets.

US-Canada free trade pact faces rough ride in Congress

BY DAVID OWEN IN WASHINGTON

THE US-Canada free trade agreement faces a tough ride in Congress, despite the removal from the definitive legal text of a transportation provision which had incurred the wrath of the US maritime shipping lobby.

This became clear during an informal Congressional hearing on Monday, which marked the pact's hesitant emergence into the post-summit media spotlight in the US.

Political horse-trading now appears to pose the most serious threat. The pact's proponents are worried that Congress may use its approval as a bargaining chip to secure Administration concessions on the omnibus Trade Bill now dominating much of the Washington political agenda.

There are concerns that some Congressmen may still feel that the proposed binational disputes settlement mechanism constitutes an unacceptable inroad into US sovereignty, and that the deal will be opposed by US special interest groups. However, without the powerful shipping lobby, these are thought unlikely to wield enough clout to pose a significant problem.

Under the terms of the preliminary agreement, Canadian ships would have secured the right to be treated as favourably as US vessels in any future changes to US maritime legislation. Restrictions outlined in the Jones Act currently confine the shipment of goods between US ports to US vessels.

A handful of further changes have been made to the preliminary transcript but in the main the definitive version merely restates and amplifies the preliminary text.

On dispute settlement, the definitive text provides for the creation of an additional three-strong binational panel of former judges to rule on any complaints regarding a decision made by the original disputes settlement tribunal.

Under the terms of the agreement, trade disputes will be reviewed by a five-member binational panel with a mandate to judge whether trade actions taken by either side are in accordance with existing law.

President Reagan and Canada's Prime Minister Brian Mulroney are scheduled to sign the agreement on January 2 to permit it to be dealt with under the fast-track procedure which prevents Congress amending it.

Losing a leg but keeping a bit of the dishwasher

BY RALPH ATKINS

THE AVERAGE size of a British household fell by 0.35 of a person, or about an arm and a leg, in the 14 years to 1985, a Government survey reveals today.

The General Household Survey, compiled by the Office of Population Censuses and Surveys, meticulously pulls apart life's rich tapestry to provide multifarious statistics on social trends.

The 200-page report covers population, race, employment, housing, education and health. Researchers also peered under Britain's bedclothes to study trends in marriage and co-habitation.

Among the results from its study of 12,500 households, the report finds:

- The typical household in 1985 consisted of 2.56 persons and 0.06 of a dishwasher. Telephones are owned by 81 per cent of households while 31 per cent own videos. Home computer ownership increased from 9 per cent in 1984 to 13 per cent in 1985.
- The proportion of households owning their homes - but lumbered with a mortgage - has risen from 27 per cent in 1971 to 37 per cent in 1985. The percentage owning their houses outright rose from 22 per cent to 24 per cent in the same period.
- Almost 70 per cent of households had central heating by 1985.
- Council house tenants fell from 34 per cent of households in 1979 to 28 per cent in 1985 - largely the result of the Government's right to buy legislation.
- One in eight people aged 16 or over live alone. Among over 75 year olds, 58 per cent of women and 26 per cent of men live by themselves.

The survey combines data collected over three years to 1985 to give an accurate breakdown of ethnic groups. It finds 95 per cent of the population are white, with 1 per cent falling into each of three other main classifications - Indian; Pakistani or Bangladeshi; and West Indian. The remainder fall into another category or did not answer the question.

Of the total British population, 6 per cent were born outside the UK. This rises to 49 per cent among West Indians and 67 per cent in the Indian community.

Among whites, 15 per cent were aged 65 or more and 22 per cent under 16 years. In the Pakistani or Bangladeshi group, 48 per cent are younger than 16 and only 2 per cent above 65.

Signs that Britain may be getting over a long bout of hypochondria are apparent in the section on health.

The survey reports the proportion of the population reporting long-standing illnesses fell from 32 per cent in 1983 to 30 per cent in 1985.

That slight drop follows a continuous rise since 1972. However, Government statisticians warn that people's replies to questions about health vary according to expectations and perceptions of what is regarded as illness.

The statisticians add that it is too early to conclude that the recent fall is the start of a long-term return to fitness.

Figures for total tooth loss – a less subjective indicator of the nation's health – show a sharper picture, however. The percentage of adults with no natural teeth fell from 37 per cent in 1968 to 22 per cent in 1985.

Although interviews were anonymous, the survey finds people were less than candid about their marital status.

It finds 5 per cent of all women aged between 18 and 49 were co-habiting with men who were not their legal husbands but of these, 62 per cent initially told interviewers they were married.

The survey finds 68 per cent of women in the 18 to 49 age group were legally married. Among unmarried women in the same group, 16 per cent were co-habiting, according to the official definition, compared with 14 per cent in 1984.

Wisely, interviewers did not ask similar probing questions of men and the women they lived with. An awkward discrepancy could, after all, have proved embarrassing.

General Household Survey 1985. HMSO £10.70

Population projection: Page 7

Fifth TV channel gets green light

BY RAYMOND SNODDY

THE Government is expected to press ahead with a fifth television channel following the findings of an engineering committee set up by the Department of Trade and Industry that an extra channel is technically feasible.

Provision for a fifth channel is likely to be included in the second of two broadcasting bills planned by the Government between now and 1989.

Because of the complex issues involved, it would probably be 1991-1992 before such a channel could be launched.

Mrs Margaret Thatcher, the Prime Minister, is believed to be an enthusiastic supporter of an advertising-financed fifth channel to put pressure on the broadcasting unions and break the television advertising monopoly of the ITV companies.

The aim would almost certainly be to let the channel as a national, as opposed to local, franchise to new commercial entrants to broadcasting.

The engineering committee, which includes senior broadcasting engineers from the BBC and the Independent Broadcasting Authority, argues in a report now being finalised that between 60 and 70 per cent of the UK population could be reached by a new fifth channel in addition to the UK's existing four national channels.

The engineers also believe there is capacity for a sixth television channel which could reach 50 per cent of the population.

The committee found that using spare capacity on Britain's 44 UHF channels in their present configuration would be impractical.

NHS row prompts angry exchange

By Peter Riddell, Political Editor

THE growing political row over the National Health Service yesterday erupted into one of the angriest and noisiest exchanges in the House of Commons since the June general election.

These came ahead of the announcement later today by the Government of increases in spending aimed at the most hard-pressed health authorities. These will be in the form of allocations to regional health authorities and a revised distribution formula between parts of the country.

The increases will be from the additional £700m already announced for hospitals and the community health service in England in 1988-89. There is also pressure to make additional provision from the contingency reserve next spring to halt bed closures and to finance the restructuring of nurses' pay.

In the Commons yesterday, Mrs Margaret Thatcher, the Prime Minister, defended her NHS record in detail, while Mr Neil Kinnock, the Labour leader pressed the Government to provide more funds.

Ministers and senior Tories recognise that the Government has become politically vulnerable on the issue in face not only of effective opposition pressure but also the daily calls for action from leading members of the medical profession.

Yesterday a petition signed by 1,200 doctors calling for an immediate cash injection was handed in at Downing Street by five leading consultants and a Tory backbencher.

The extent of Tory concern was reflected in a statement last night from Mr John Biffen, the former leader of the Commons. He said the public could hardly believe "the imposing statistics of health care when they see around them hospital and ward closures." He urged a reassessment of the NHS, leading to a closer partnership between the private and state sectors, with growing private health insurance.

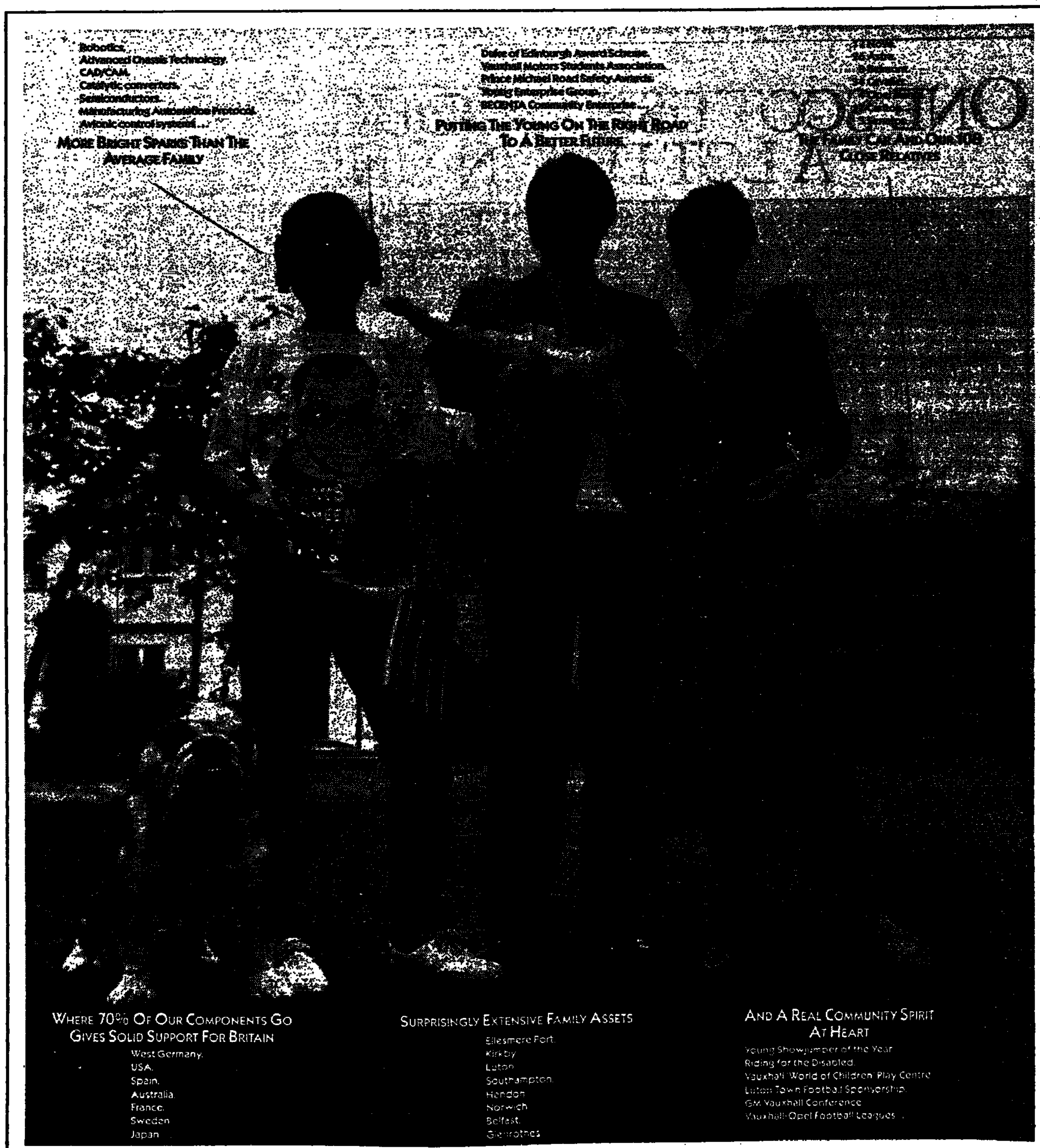
Mr Biffen argued, however, that, until the new policy directions are charted, there had to be "more public funds, and the longer those funds are witheld the more serious will be both the short and long-term problems."

In the Commons, the Speaker repeatedly had to call for order, accusing MPs of behaving in "a disgraceful way" as Conservative and Labour members shouted and gestured at each other across the chamber. As is her practice, Mrs Thatcher gave detailed fiugres of increase spending and patient care.

But Mr Kinnock accused her of making a fool of herself by hiding behind statistics and showing "a complete determination not to respond to what the highest authorities and most expert opinion is calling the crisis in the health service." He pressed for more resources to bring beds back into use, fund pay awards and to stop the rot in the NHS.

- A new scheme to offer nurses in London 100 per cent mortgages, repayable at only two-thirds of the normal interest rate, was yesterday unveiled by Nationwide-Anglia Building Society

Details, Page 10



Fourth 'country town' planned by consortium

BY LYNTON McLAIN

FULL PLANNING permission to build a new town beside the M40 in Oxfordshire is to be sought by Consortium Developments, which consists of the nine largest housebuilders. An outline planning application has been submitted to South Oxfordshire District Council.

This is the fourth proposal considered by the consortium for a so-called new country town. The planning application for one proposed at Tillingham Hall, Essex, was refused in February after a public inquiry.

The consortium is awaiting the start of a public inquiry – expected next June – into its proposal for a country town at Foxley Wood, Bramshill, Hants, south of Reading and six miles from the M4.

The consortium has not submitted a planning application for its proposed country town south of Wilburton, Cambs.

The latest proposal is for a town with a 15,000 population, to be built on agricultural land seven miles east of Oxford. The consortium wants to build 6,000 homes between the villages of Great Haseley, Milton Common and Tetsworth, south-east of the M40's junction seven.

Yesterday it said the site was outside the Oxford green belt and Chiltern area of outstanding natural beauty and would be called Stone Bassett.

The consortium regarded the proposal for a new country town "as conforming to the spirit of the Oxfordshire structure plan which proposes the concentration of new development in country towns as a way of meeting housing pressures".

Mr Andrew Bennett, consortium executive director, said all evidence pointed to a shortfall in housing provision in Oxfordshire between 1991 and 2001, possibly by up to 40,000 homes. If the need for new homes was to be met, more land would be required for housing in the county than was envisaged.

The proposal includes development of a 300-acre country park on the western part of the 1,210-acre site.

The consortium wants immediate talks with local and statutory authorities. Detailed proposals *will be submitted after the consultation process.*

Consortium Developments consists of Barretts, Beazer, Bovis, Ideal Homes, John Laing, Y. J. Lovell, Tarmac, Wilcon and Wimpey.

● The Erostin group of Milton Keynes, with the Richard Wood Partnership of chartered town planners, has proposed a waterside village, at Framley, near Lichfield, Staffs.

It would be called Framley Hythe and be on a 100-acre site, around a purpose-built canal linked with water-basins and a marina. Total investment is estimated at £30m.

Population of 60m forecast for year 2025

By Alan Pike, Social Affairs Correspondent

THE UK population, 56.5m in 1985, is likely to reach 60m by the year 2025, according to projections issued yesterday by the *Office of Population Censuses and Surveys.*

This growth rate is slightly higher than the previous projections, based on the 1983 population figures.

The growth is expected to occur in the populations of England and Northern Ireland, projected to rise by 8 per cent and 13 per cent respectively.

By contrast, a 1 per cent drop in the Welsh population and a fall of 8 per cent in Scotland are expected.

By the year 2025, people aged 60 and above – currently 20 per cent of the population – will form 25 per cent. The growth in the elderly population will have extensive implications for health care and social services provision.

The figures show that between 1983 and 1985 the number of British citizens leaving the country fell.

Population projections 1985-2025 (Series PP2, No. 15). HMSO. £10.20

Drug that leads race against AIDS

Peter Marsh examines efforts to find a cure for the killer disease

WELLCOME, the UK drug manufacturer, looks likely to have a virtual monopoly over AIDS treatments for at least the next 18 months, according to observers in the pharmaceuticals industry.

Beyond this, the future for Retrovir, the formulation in question, is virtually impossible to forecast; there are uncertainties over how the killer disease will develop and how much possible competition there will be for the product.

Retrovir has hit the *headlines* because it is the only available medication for the disease and because of its high price.

On the second point, Wellcome acted on Monday to forestall growing criticism that it was likely to make excessive profits from the medication. It reduced the price of the drug by a fifth, lowering the cost of a year's treatment to about £4,000 in Britain, one of 37 countries where Retrovir is available.

The company said the move was designed to pass savings in manufacturing the drug on to customers. Retrovir became available on prescription in April and is being used by roughly *19,000 AIDS sufferers, most of* them in the US.

Wellcome based its initial price for the drug on the high cost - about £50m - of bringing Retrovir into production. Sales in the year to August were about £16m, making a minimal contribution to pre-tax profits. Taking into account the price change, industry observers expect sales in the current year to be £100m to £200m with likely profits of £20m to £50m.

Although it appears that no other drug will compete with Retrovir until at least mid-1989, prospects for the drug beyond this are difficult to judge.

More than 60,000 people around the world are known to have contracted AIDS, though there are probably many thousands of further cases where the *disease has not been confirmed.* The figure includes about 40,000 identified cases of the illness in the US, where the disease has been most highly publicised. Of those, about half have proved fatal.

Speculation about the extent to which the disease will develop - which will obviously affect the potential market for Retrovir - are largely informed guesswork. According to the most gloomy projections, roughly 270,000 people in the US will have contracted AIDS by 1991.

Another uncertainty is potential competitors for Retrovir. According to a recent study by *the US Pharmaceutical Manufacturers'* Association, at least 60 AIDS-related medications are under development in the US alone.

Mr Ian White, a drugs industry analyst at Greenwell Montagu, a London stockbroker, says attempting to predict a drug to compete with Retrovir is "about as risky as betting on the Grand National".

Retrovir's competitive position is the less strong because the drug is a palliative, not a cure. It merely slows down the disease. It causes a variety of side-effects, including some cases of severe anaemia, which can require frequent blood transfusions.

Dr David Chernoff, assistant director of the AIDS clinic at the University of California in San Francisco, is treating 100 patients with Retrovir. "In the past you had a patient with AIDS and waited for him to die," he said. "Now at least we can tide him over until something better occurs."

Dr Charles Farthing, an AIDS specialist at St Stephen's Hospital in London, said Retrovir had shown "dramatic results in terms of patient improvement - but we definitely need something better".

Exactly what a better AIDS drug may be is a matter for speculation. Retrovir is based on a chemical that binds on to parts of the AIDS virus, blocking a vital site for further reactions and stopping the virus replicat*ing.*

The drawback is that it also interferes with the replication of other, healthy, biochemical fragments in the body, leading to the side-effects.

Several other drugs which work in a similar way to Retrovir, by stopping biochemical reactions related to the disease, are now under study. They include dideoxycytidine, which Hoffman-La Roche of Switzerland is developing; Foscarnet, under development by Sweden's Astra; and a product known only as AL-721 which is being researched at Ethigen in the US.

Another approach is to boost or modulate the body's immune system to make it fight off the disease by destroying the AIDS virus directly with antibodies. Possible products in this category include Ampligen (under development jointly by Du Pont and HEM Research, both of the US) and Isoprinosine, which is made by the US's Newport Pharmaceuticals.

Although some of these drugs show promise, all have still to run through the full gamut of trials in human patients. Even if they were to be rushed through licensing stages by regulatory authorities – as was the case with Retrovir, where many countries approved the drug with great urgency – most observers believe Wellcome will be unchallenged in anti-AIDS medications for the immediate future.

Ms Lindsay Jenkins, an analyst at the London office of Morgan Stanley, the US bank, said a new AIDS drug was more likely to emerge from research that has yet to reach the stage of clinical trials.

According to Mr David MacCallum, head of health-care research at Hambrecht and Quist, a New York bank, whatever emerges to beat Retrovir is unlikely to be cheap. He thought Wellcome had been unfairly pilloried over the high price of its drug. "The public has to be educated that modern pharmaceuticals are far more elegantly designed than even five years ago and so are very expensive."

Government loses round in spy book battle

Financial Times Reporter

THE GOVERNMENT has lost the latest round in its legal battle to prevent publication of Spycatcher, the memoirs of Mr Peter Wright, the former MI5 officer.

A court in New Zealand yesterday rejected the Government's request for a permanent injunction to stop The Dominion newspaper in Wellington publishing extracts from the book.

The decision was given in a written judgment from the High Court in Wellington.

An official at 10 Downing Street said: "There is a right of appeal but we shall be studying the judgment before making a decision."

The Dominion had argued that it should have the right to publish extracts from the book because it was of public interest.

Mr Geoffrey Baylis, the newspaper's editor, said the paper wanted to publish extracts of Spycatcher because Sir Roger Hollis, the former head of MI5, who is mentioned in it, set up the security services in New Zealand and Australia.

He hailed the judgment as a victory for free speech and said his paper would resume printing extracts from the book tomorrow.

Spycatcher has already been published in the US, Ireland and Canada.

Low investment 'is threat to growth'

BY NICK GARNETT

INVESTMENT spending in the UK has become "disturbingly low" and threatens to stunt economic growth, the Engineering Employers Federation says in its annual submission to the Government on next year's Budget.

The ratio of spending on plant, machinery and research to consumption is "alarming", the submission says. The ratio is lower in the UK than among its major industrial competitors and, in terms of gross fixed capital formation to consumption, is half that of Japan.

The federation, which has 5,000 member companies in engineering and allied sectors, is seeking changes in corporation tax.

It says 100 per cent relief should be available for all investment spending to put the tax treatment of investment on the same footing as the treatment of other forms of expenditure.

At the very least, investment in plant and machinery should be written down for tax purposes in no more than four annual instalments, with full inflation adjustment for unrelieved expenditure.

"We recognise that the recent performance of the UK economy has been good, especially so when compared with the disappointing growth rates of other leading countries," the federation says.

"What concerns us is that growth will be unsustainable without increased investment, training and research and development."

Changing the tax from the present reducing annual balance to one of four annual instalments would reduce the tax on plant and machinery investment from 7.5 per cent to 4.5 per cent at an interest rate of 10 per cent a year, the submission argues.

At an interest rate of 15 per cent a year, it would come down from 9.8 per cent to 6.3 per cent.

Using government statistics, the federation says the ratio of net fixed capital formation to consumption has fallen from about 12 per cent in the 1960s to about 5 per cent in 1986.

The UK has shown some increase since 1983 in the ratio of gross fixed capital formation to consumption but it remains lower than in most other competitor nations.

Copyright bill clauses worry aerospace groups

BY MICHAEL DONNE, AEROSPACE CORRESPONDENT

AEROSPACE and defence companies are expressing concern over clauses in the copyright bill, now before parliament, which they fear could damage long-term rights over their inventions in aircraft, engines, missiles and spacecraft, losing them income from sales and royalties.

The Society of British Aerospace Companies is expected to lobby for changes during the bill's committee stages.

The clause in the Copyright, Designs and Patents Bill causing most concern is no. 195 in part three, which specifies that *"design rights" in an engineering* product will expire 15 years after the first manufacture of it.

This is interpreted in the aerospace industry to cover every manufactured part, often involving an original invention after years of research and the outlay of millions of pounds in development.

Aerospace companies point out that they make their profits from selling spare parts over many years – sometimes more than 30 years – from the entry into service of an aircraft or engine.

They say this clause could mean unique parts being legally expropriated by rivals, especially in other countries, which have spent nothing on research and development.

This is also worrying electronics companies because many of their inventions are responsible for the success of British-built electronic components in aircraft and spacecraft.

Another area causing concern is clause 51 in part one of the bill, which specifies that it will not be an infringement of copyright to make a copy of an article from a design document or a model "which is not an artistic work".

This, in the aerospace industry's view, throws virtually everything it does open to commercial piracy.

The *industry is also worried* about clauses 220-223 in part three, which in effect gives the Crown, notably so far as aerospace is concerned through the Ministry of Defence, much wider powers than hitherto to use inventions and other products without infringing original copyrights.

For example, clause 220 gives the Crown the right to dispose of articles no longer required "without the licence of the design right owner".

The aerospace industry says many clauses are so loosely phrased that they could be taken to refer to almost any kind of manufactured product. The aerospace industry will lobby to have these and other clauses rephrased.

Data protection fine

BY RICHARD EVANS

THE FIRST case of failure to register under the Data Protection Act has been brought before the courts. A garage in Bedfordshire has been fined £500 at Bedford magistrates court.

Mr Eric Howe, Data Protection Registrar, said yesterday that the garage was one of several companies investigated for non-registration under the act, which came into full operation last month.

It obliges all personal files kept on computer by companies, organisations, public bodies and individuals to be registered. These are now available for inspection, on payment of a fee, by individuals who think the data might be incorrect.

So far only about 150,000 organisations have registered out of between 200,000 and 250,000 considered eligible. The Crown Prosecution Service is investigating further cases that might be brought before the courts.

Mr Howe said it was not intended to bring more prosecutions than were necessary. The tactic was to approach companies and organisations with personal data on computer to find out why they were not registered.

UK NEWS

British Gas urged to be more open over pricing

BY MAX WILKINSON, RESOURCES EDITOR

BRITISH GAS should be encouraged to be more open about its pricing policy towards industrial customers so that potential competitors would have a better chance, Mr James McKinnon, director general of the Office of Gas Supply, said yesterday.

Mr McKinnon was introducing a study by Ofgas which says that direct competition to British Gas could develop in about two years' time when new North Sea gas fields come on stream.

Ofgas has no power to interfere with British Gas's price policy in the industrial market, but it does have a duty to promote competition where possible.

Mr McKinnon said he was convinced, after talking to more than 100 companies, that many consumers would like to see the development of alternative suppliers of natural gas, and several producers and traders would be interested in coming into the market. Producers could make significantly more money by selling direct to industrial customers than by selling to British Gas, he said, but the risks would be higher.

One factor which inhibited competition was the commercial secrecy which surrounded British Gas's pricing policy. It meant that a potential competitor would have to take "a leap in the dark."

Mr McKinnon said he believed the recently announced Monopolies Commission investigation into the industrial gas market would need to include an analysis of British Gas's profitability in supplying to domestic users as well as pricing and profits in the industrial market. Greater transparency in pricing would help competition and perhaps result in lower prices to industrial consumers, he believed.

The Monopolies Commission inquiry would need to discover that British Gas was cross-subsidising its industrial business from the profits made from domestic consumers. He said that he would also need to keep a yearly check on the profits made in the domestic gas business so that a proper review could be made at the appropriate time of the formula which governs domestic prices.

This allows British Gas to pass on the cost of its purchases from the North Sea, but requires its prices to reflect a 2 per cent per annum reduction in its other costs.

Competition in Gas Supply, Ofgas, 105 Victoria Street, London SW1E 6QT.

Late tackle angers Maxwell

BY PHILIP COGGAN

MR ROBERT MAXWELL cried "foul" yesterday after the Football League demanded he restrict his soccer interests to just one club. The committee was not only incompetent, it could not be trusted, he said last night.

The league did seem to have delivered something of a late tackle. Its management committee threw out a compromise reached 10 days ago by Mr Maxwell and Mr Philip Carter, the league's president. That allowed Mr Maxwell's printing group, BPCC, to buy Elton John's controlling interest in Watford in return for him selling his interests in Oxford United, where his son Kevin is chairman.

However, the committee now wants Mr Maxwell to sell his shares in Derby County and Reading as well, and concentrate on Watford. Mr Maxwell has had interests in Oxford, Derby and Reading for some years without any action being taken by the league.

Battle lines have been drawn. The league will seek to tighten the rules at an extraordinary meeting of its club chairmen on January 19, with any decision having retrospective effect.

Meanwhile, Mr Maxwell unleashed a fusillade of rhetoric at his opponents. He said: "The Football League is now being run by small men with even smaller minds. Over the past few weeks, they have shown the impartiality, wisdom and farsightedness of a committee of Pakistani umpires. Unless the clubs and their supporters stand up against these incompetents, the professional game in Britain is doomed to debt, disarray and destruction."

Commercial Union maintains bonus rates

By Eric Short

THE COLLAPSE in stock markets worldwide over the past few weeks and the lowering of interest rates in the UK has not affected bonuses for investors holding with-profit life and pension contracts with Commercial Union Assurance, one of Britain's leading insurance composite groups.

The company yesterday announced unchanged reversionary and terminal bonus rates and is repeating last year's special 10 per cent bonus payments.

Bonus declarations on with-profit contracts take the form of additions to the ultimate benefits paid on a contract.

The reversionary bonus is declared every year and reflects roughly the investment income received by the underlying fund. The terminal bonus is added when the contract becomes a claim and reflects the underlying unrealised capital appreciation on equities and property investment.

Very few life companies have cut reversionary bonus rates in the past 40 years. However, the recent fall in interest rates is putting pressure on life company actuaries to do just that. Many admit that the investment return from new money is not sufficient to support current reversionary rates and that the shortfall is coming from reserves.

The recent stock market fall is likewise putting pressure on actuaries to cut terminal bonus rates especially for those companies which increased rates during the year.

In addition, life companies have incurred a heavy financial strain by putting large amounts of new business on their books, a further factor putting pressure on actuaries for a bonus cut.

The net effect of CU's unchanged rates is to push up pay-outs to investors with maturing policies.

Today, Norwich Union is also expected to announce unchanged bonus rates.

Moss Bros sells shop site for £23m

By Maggie Urry

MOSS BROS, famous for hiring toppers and tails to Ascot-goers, *has sold its London flagship* store for £23m.

The freehold site, valued at £15m in the company's books, was bought by Kumagai Gumi UK, a subsidiary of the Japanese construction group.

The site, on the corner of King Street and Bedford Street in Covent Garden, *will be redeveloped* for retail, office and residential use. Moss Bros will have a store within the complex.

Mr Wilfred Cass, chairman of Moss Bros, said yesterday the price was better by £3m to £5m than he had expected.

Moss Bros will receive the bulk of the £23m in February 1989 and plans to use it for expanding its new chain, Suit Co, and its wedding dress business. It will also buy freeholds and keep part of the proceeds in cash.

The £23m compares with net assets of £5m for the group as a whole at January 31. Moss Bros *shares* gained 160p to 590p yesterday, where the company is capitalised at £27.1m.

Morgan chief for Rothschild

By Clive Wolman

MR ALFRED VINTON, vice-chairman of Morgan Guaranty, the New York commercial bank, is to take over as chief operating officer of N. M. Rothschild, the merchant bank, from Mr Evelyn de Rothschild, who will remain chairman and chief executive.

The appointment will take effect from mid-January. It is only the second time in recent years that a senior position at the private bank has been filled from outside.

London health workers offered low-interest 100% mortgages

By Andrew Taylor

A SCHEME to provide nurses and other National Health Service workers in London with cheap mortgages to help them buy their own homes was launched yesterday by Nationwide Anglia, the third-largest building society.

Under it health workers will be eligible for 100 per cent mortgages at two-thirds the usual interest rates. In return, the society expects to keep up to half the profits when a home is resold.

The society said monthly repayments on a £60,000 loan would reduce, after tax relief, from £496 to £297.

The scheme is the second major housing initiative launched by the society: three weeks ago it announced plans to provide up to £600m in loans for a national private-rented housing venture.

It formed this venture with four former employees of Glasgow district council's housing-management department.

Mr Tim Melville-Ross, society chief executive, said the latest scheme was in recognition of the special problems facing employees on modest wages trying to buy property in London. The scheme might be spread to other groups of professionals in London, such as teachers.

However, union leaders last night said most nurses, even allowing for cheaper interest rates, could still not afford to buy homes on their own.

Hector Mackenzie: nurses face clubbing together for garage

The National Union of Public Employees said the proposals were no substitute for a living wage. Nupe represents 80,000 nurses, 160,000 hospital ancillary workers and 12,000 ambulance staff.

Mr Hector Mackenzie, general secretary of Cohse, the health care union, said: "Nurses in the capital will still have to club together to be able to afford a mortgage for nothing more than a lock-up garage."

Under the society's proposals National Health employees working in London could apply for mortgages up to 4.5 times their annual salary; or, in the case of a couple, 3.5 times joint salaries.

Loans of 100 per cent would be available up to £75,000 in Greater London and up to £60,000 in the outer metropolitan area. Loans of 95 per cent of purchase price would be available up to £100,000.

Union leaders said the lowest price for a London flat was £45,000. This would still be above the purchasing power of inner-London staff nurses earning £8,230 a year, even.

Water proposals face hostility

BY RICHARD EVANS

MINISTERS face an angry response today from water authority chairmen when proposals for the privatisation of the industry are outlined.

Ministers and officials from the Department of the Environment will confirm that Mr Nicholas Ridley, the Environment Secretary, plans to set up a National Rivers Authority to take over all regulatory functions and some operational aspects of the industry, against the advice of most water authority chiefs.

The full plan, due to be disclosed in a Commons written answer tomorrow, will show that Mr Ridley has stuck firmly by his own proposals for privatisation and has not heeded the points made from within the industry during the consultation process.

Although the Water Authorities Association, which represents all 10 authorities due to be privatised in England and Wales, said yesterday it would work to facilitate the early flotation of the industry, the failure of ministers to take its views on board is certain to create difficulties.

The Government is keen to keep the NRA as small as possible and plans to discharge much of its management and operational work to the privatised authorities on short-term contract.

However, this is likely to be unacceptable to the authority chairmen and there are hints that conflict on this issue could delay privatisation which is scheduled to start at the end of 1989 and go on into 1990.

The association is arguing *either for the privatised authorities* to have the statutory responsibility for these services – which include land drainage and flood protection, pollution control, navigation and fisheries – or long-term contracts covering the full 25 years of the privatised authorities' licences.

The Government's short term contract approach would, according to the association, confuse lines of responsibility and accountability.

The Government will be represented at today's meeting at the association's headquarters in London by Lord Belstead, the minister in charge of the water industry; Mr Colin Moynihan, junior minister at the DoE; Sir Terence Heiser, permanent secretary at the DoE; and Mr John Gunn, in charge of the department's water directorate.

Apricot agrees deal to sell Sequent machine

BY TERRY DODSWORTH, INDUSTRIAL EDITOR

APRICOT COMPUTERS, the Birmingham-based company which has bounced back to strong profitability this year, is entering the fast-expanding market for departmental computers with a machine designed by Sequent of the US.

The five-year deal will give Apricot rights to the Sequent technology in the UK while in key overseas markets it will be able to sell the computer as part of its investment management products. The computers will be assembled at Apricot's plant in Glenrothes, Fife.

Two years ago, Apricot was hit by a financial crisis brought on by over-hasty expansion in the US. Since then the company has moved its product range up market away from personal computers towards a broad range of desktop and now departmental machines.

Sequent, started by former employees of Intel, the US microprocessor company, is a world leader in the computing field of parallel processing. In the US, parallel processing techniques have been developing rapidly as a means of reducing computing costs. Sequent computers use clusters of microprocessors that work in parallel rather than sequentially, and are claimed to provide power at up to a tenth of the price of conventional computing.

The addition of the machines to Apricot's range means that it now covers a wide spectrum of the market, with the exception of large mainframes. Mr Roger Foster, group chief executive, said yesterday that Apricot's future product range was likely to include a mixture of equipment developed in-house and bought in from outside suppliers.

BBC-independents deal

BY RAYMOND SNODDY

MR MICHAEL CHECKLAND, director-general of the BBC, yesterday welcomed the comprehensive agreement reached on Monday night with independent producers and said it would allow the corporation to bring greater diversity to schedules.

The BBC and the Independent Access Steering Committee have agreed terms of trade covering everything from the commissioning process to copyright ownership, programme distribution and exploitation.

The agreement is an important *step towards the Government's* goal of giving independent producers access to about 25 per cent of Britain's four national television channels.

Mr Bill Cotton, managing director of BBC Television, believed the agreement gave the BBC a firm footing for moving towards its target of using 600 hours a year of independently produced programmes by 1991.

Ms Sophie Balhetchet, chairman of the Independent Programme Producers Association, said the agreement offered "a set of practical and flexible guidelines that provide the independent sector with both a fair deal and a real opportunity to become a major force in UK television productions."

● The Government yesterday gave the Independent Broadcasting Authority permission to advertise new independent local radio franchises despite imminent legislation for a vast expansion of radio. Of the 69 areas approved in principle for ILR franchises, 13 remain unserved.

Waste flaw in fusion reactors

By David Fishlock, Science Editor

NUCLEAR FUSION reactors, if ever developed, would produce substantial quantities of radioactive waste, according to a study published today by the Government's watchdog on public exposure to radiation.

The study answers some critics *of nuclear energy who say* nuclear fission technology should be abandoned, and research refocused on the "clean" technology of controlled thermonuclear fusion – the H-bomb reaction.

The National Radiological Protection Board's study concludes that a fusion reactor would make hundreds of tonnes of nuclear waste a year and a nuclear fusion programme to meet *present demand for electricity could* produce 100,000 tonnes of waste annually.

The report, partly funded by the Culham Laboratory of the UK Atomic Energy Authority, the centre of UK research into the fusion reactor, says waste would arise mainly as engineer*ing materials* were damaged by intense radiation. The weakened parts would need to be replaced regularly and some parts would be so intensely irradiated that they would be categorised as high-level radioactive wastes.

A recent appraisal of Britain's publicly-funded energy research *and development programmes*, which awarded up to four stars for the cost-effectiveness of the research being done, gave none to nuclear fusion, which it rated unpromising economically.

Radiological aspects of the management of solid wastes from the operation of D-T fusion reactors, by J. P. Davis and G. M. Smith, NRPB-R210. HMSO. £6 00.

Trade deficit widens to £3bn

By Simon Holberton

THE DETERIORATION in Britain's balance of payments was underscored yesterday by *official figures* which show a widening in the current account deficit to a seasonally adjusted £1.2bn in first nine months of this year.

The detailed figures released by the Central Statistical Office showed that Britain's trade deficit grew to £8bn in the third quarter, compared with *£2.4bn* and £1bn in the second and first quarters of this year.

The trade gap was only partly *offset by earnings* from tourism and investments abroad. The extent of these earnings over the past nine months was written down by the CSO after it revised earlier figures.

The UK's trading position is important for the level of exchange and interest rates. The current strength of the domestic economy combined with the deterioration in the balance of payments will create problems for Whitehall if it continues.

Many City analysts believe the trading position will worsen next year and that the Government will either have to raise interest rates to defend the pound or intervene in foreign exchange markets to prop it up.

The Treasury expects a £2.5bn current account deficit for the year and a *further deterioration* to £3.5bn in 1988. It forecasts a decline in oil revenues and expects non-oil imports to remain strong compared with exports because of the buoyancy of Britain's economy relative to its main trading partners.

However, many independent forecasters believe the forecast is optimistic and estimate next year's deficit at about £4bn.

Preliminary figures showed that invisible earnings, which consist of earnings derived from services, interest, and profits and dividends on investments abroad, were overestimated by £100m *during the first quarter* and underestimated by £102m in the third quarter. For the second quarter, however, a downwards revision of £464m was made after incorporating new data.

UK direct investment in foreign manufacturing and service industries amounted to £5.5bn in the *third quarter against* £4.9bn in the second quarter, while UK investors in foreign shares and government bonds reduced their holdings by £200m compared with a £800m reduction previously.

Foreign investment in UK manufacturing and services amounted to £2.4bn in the third quarter.

Britain's living costs 'cheaper than most'

By Michael Dixon

IT IS now cheaper to live in the UK than in most of the world's commercially-active countries, according to figures published yesterday by Employment Conditions *Abroad*, a *consultancy* which advises multinational companies on pay and living costs in different lands.

Britain is this year placed 57th in the ranking of the 70 countries covered by the consultancy's cost surveys. These are based on international differences in the *price of a shopping*-basket of essential consumer and household-durable goods.

The most expensive country is Japan, 163 per cent more costly than the UK. It is followed by Algeria, Sudan, Zaire and Norway, in all of which consumer and household-durable items cost more than twice as much as in Britain.

The differences in prices are heavily influenced by exchange-rate movements. However, Britain's move down the international ranking from 47th place in 1980 has also been helped by relatively restrained inflation.

The *shopping-basket's cost has* risen only 51 per cent during the past seven years, compared with increases of 82 per cent for western Europe as a whole and well above 1,000 per cent in some countries.

Industrial output figures buttress post-crash optimism

BY PHILIP STEPHENS, ECONOMICS CORRESPONDENT

OFFICIAL optimism that Britain's economy may escape relatively unscathed from the stock-market crash was reinforced yesterday by figures showing manufacturing output growing faster than at any time since 1973.

The Central Statistical Office said manufacturing output in the three months to October was 2 per cent above the previous three months and about 6.5 per *cent higher than a year earlier.*

Government statisticians believe the 6.5 per cent increase represents the underlying annual rate of growth, marking an acceleration from the 5 per cent to 5.5 per cent seen earlier in the year.

City economists said, however, that if the figures suggested fears of a recession *next year had* been overstated they also fuelled concern about the risk of a revival of inflationary pressures. *Those fears* were strengthened by separate statistics also out yesterday showing a significant deterioration in Britain's trade *position during the first nine* months of this year.

The last time there was a faster expansion in manufacturing was in 1973, when output was rising at an annual rate of up to 14 per cent. Manufacturing production is now 2.5 per cent above the last cyclical peak seen *in 1979 although still* 2.5 per cent below the record level seen in 1974.

Because they cover the period up to October, the latest statistics are unlikely to have been affected by the turmoil on financial markets.

The likely impact on industrial confidence of *sharply* lower stock market valuations and of sterling's steep rise against the dollar are particularly difficult to *gauge over the short* term.

Yesterday's figures do, however, underline the strength of the economy before the equity price slump, suggesting it was in a good position to weather some decline in demand.

After a dip in the early part of 1986, most sectors of manufacturing have shown strong growth over the past 18 months. Recently the most buoyant sectors have been motor vehicles, where a surge in production during September pushed the increase during the latest three months, compared with a year earlier, to more than 17 per cent.

Over the same period, metals production was 11.1 per cent higher and the plastics and rubber products industries recorded similar growth. Output of electrical and instrument engineering equipment, which includes computers, rose almost 7.5 per cent.

In contrast, and despite a relatively strong performance in the past three months, output of the man-made fibres industry *stagnated* compared with a year before.

The index of manufacturing output stood at 113.1 in October (1980=100) compared with 112.0 in September, while the industrial production index was at 115.4 against 114.4.

More jobs created in worst-off areas

BY PHILIP BASSETT, LABOUR EDITOR

BRITAIN'S most depressed areas are seeing some of the most significant falls in the numbers of long-term unemployed, figures published yesterday by the Manpower Services Commission show.

The figures support ministerial claims that some of the areas benefiting most from the fall in the jobless total have been those parts of the country where unemployment – especially long-term unemployment – has been highest.

The MSC statistics, published in its quarterly Labour Market Report, show that every region of Britain saw unemployment *fall* in the year to September 1987, with areas of the north and Wales seeing drops higher than the national average.

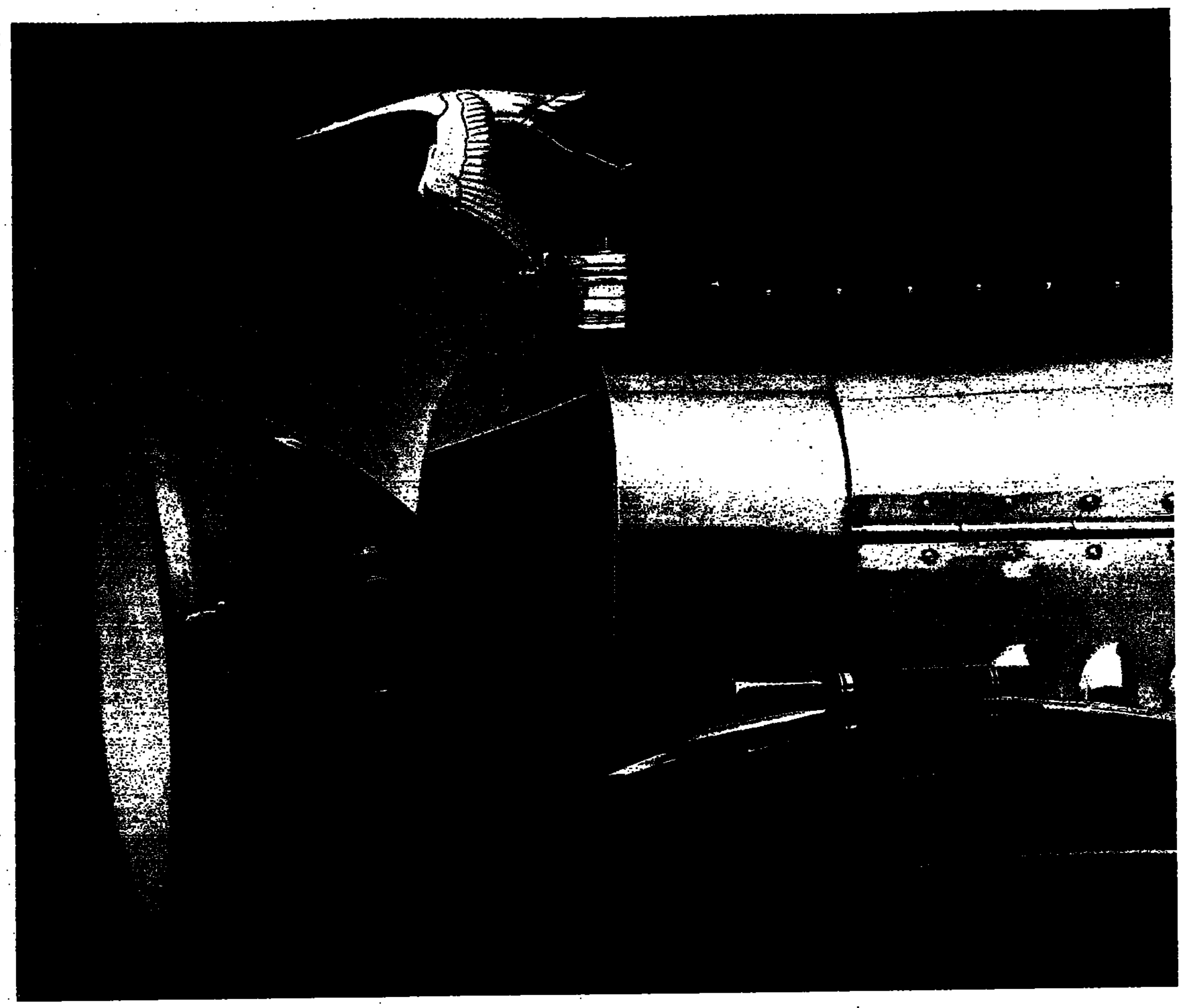
Consett, for instance, in north-west England – badly hit by the closure of its steel works in the early 1980s – has seen a higher percentage fall in long-term unemployment than a highly prosperous town such as Winchester, in the south-east.

Towns such as Sunderland and Hartlepool in the north-west, have seen among the highest falls in youth long-term unemployment.

A further fall in overall unemployment totals is expected tomorrow when the Government publishes its monthly national labour market statistics.

On local labour markets, the MSC cautions against taking the trends in its report as conclusive proof of the effectiveness of the Government's policies.

However, it says its study "does indicate that those areas where the most effort is being focused are beginning to reap the benefit."



Fresh challenge to PM on NHS

BY IVOR OWEN

RESPONDING to further challenges about the state of the National Health Service in the Commons yesterday **Mrs Margaret Thatcher**, the Prime Minister, infuriated the Opposition benches by again citing a string of statistics to back her claim that it is expanding and is not in crisis.

She had to shout to make herself heard above a barrage of abuse from the Labour benches, and **Mr Neil Kinnock**, the Opposition leader, was also repeatedly barracked by government supporters when he protested that the Prime Minister was "making a fool of herself" by stubbornly reciting figures.

At one point Mr Kinnock taunted the Tory benches by saying: "The blood is showing through the bandages which ministers are trying to wrap round their health service cuts."

The fierce and often disorderly exchanges dominated Prime Minister's Question Time and the Speaker (**Mr Bernard Weatherill**) frequently intervened to rebuke MPs on both sides of the House for shouting across the Chamber in such a "disgraceful way".

Mr Kinnock, unusually, chose to confront the Prime Minister with a series of four separate questions across the table which divides the two front benches. Top buttress his attack, he seized on the petition signed by 1,200 doctors calling for an immediate cash injection for the NHS which had been handed in at 10 Downing Street earlier in the day.

He described the petition, with its reference to the fact that serious reductions in the NHS were endangering patients' lives, as unprecedented.

Mr Kinnock called on the Prime Minister to say whether the doctors were wrong and that cuts were not really happening, whether they were right, or whether "it's all their fault".

The Prime Minister quickly made it clear that her response would be founded on the Government's record in providing more money for the NHS than any of its predecessors. As she did so her Labour critics pointed to a number of gloomy-faced Tory MPs and told her, "You are making them feel embarrassed and ashamed".

Undeterred, Mrs Thatcher emphasised the Government's "excellent record" in providing more resources for the NHS – about 30 per cent in real terms – over the last eight years.

She also pointed out that the demand made by the doctors that expenditure on the NHS should keep pace with the growth in the gross national product had already been met since the proportion of GNP devoted to it had now reached 5.5 per cent compared with 4.8 per cent under the last Labour Government.

To cheers from her supporters, the Prime Minister said: "We have done better than they requested."

Mr Kinnock reminded her that Sir George Godber, formerly the Government's chief medical officer, had stated that it was useless to recite statistics about past expenditure when what mattered was the volume of services not being provided, or which were too long delayed.

The Labour leader pressed for an assurance that funds would be provided to bring back into service the hospital beds which had been withdrawn, finance pay awards for the nurses, and to "stop the rot" in the NHS.

Mrs Thatcher retorted that the Government had already announced that for next year some £700m would be made available in England alone for hospitals and community health care.

Details of the allocations to the regional health authorities would be made known soon, she said.

The Prime Minister was insistent that it was treatment of patients which needed to be taken into account. For every three hip replacement operations carried out in 1978 there were now four; for every two cataract operations, there were now three.

She declared: "This is an expanding health service and it will continue to expand."

Mr Kinnock contended that while the Prime Minister had referred to £700m it had already been established that area health authorities needed a larger sum to meet known commitments, including a further £48m resulting from the increase in electricity prices planned by the Government.

Mrs Thatcher continued to maintain that no other Government in history had provided more resources for the NHS, enabling it to be provided with more and better-paid doctors and nurses.

"That is what Mr Kinnock does not like," she said.

When Mrs Thatcher quoted a former Labour Health Minister's recognition that demands on the health service were infinite, Mr Kinnock told her that most governments had accepted that fact as a challenge.

"Your Government uses it as an alibi," he said.

Row could hold up Dartford bridge plan

By Peter Riddell, Political Editor and Andrew Taylor

THE legislation to permit the construction by Trafalgar House of a bridge over the Thames between Dartford in Kent and Thurrock in Essex has run into political problems at Westminster which could delay construction and add to the cost.

A row is now likely between a number of Tory MPs and the Government over the recommendations of a special select committee investigating the bill.

Yesterday, as expected, the committee reported in favour of amending the measure to include a special wind shield on the bridge for safety reasons. This was by a 5-to-1 margin, with two Tory MPs voting in favour of the change (Mr Terry Dicks and Mr Den Dover), and only one against (Mr James Couchman), with the chairman (Mr Sydney Chapman) not being required to cast his vote.

Reading the report to interested parties yesterday, Mr Chapman said the majority had accepted the case for a wind shield put, among others, by Essex County Council, was sufficient to compensate for the delay and any increased cost.

The Government, which opposes the change, has estimated that it may add between one and three years to the time of construction and cost an additional £16m.

Moreover, the proposed amendment could create procedural problems involving lengthy further debate on a measure which is already hybrid since it affects particular rather than general interests.

Ministers have indicated that, after considering the report, they may seek to override the committee's recommendation on the wind shield during the bill's report stage.

This view has angered members of the committee, including senior Tories, who feel that the Department of Transport mishandled its evidence and representations.

These MPs say that it would be wrong for the wind shield proposals to be voted down in the Commons and that the proper course would be for the Government to put its case afresh to the Lords special select committee which will consider the project.

Dartford River Crossing, the company established by Trafalgar House to run the crossing, said last night that its financial arrangements would have to be reviewed if it was to include a windshield on the bridge. This could mean the company having to resubmit proposals to financial institutions which have invested in the scheme.

The addition of a wind shield would increase construction costs by between £13m and £19m. The extra cost would mean higher tolls and possibly a delay in returning the bridge to public ownership.

The company said its professional advisers had carefully considered likely wind conditions on the bridge and had concluded that windshielding was not justified.

Trafalgar House, a strong supporter of government plans to use private money to pay for major infrastructure projects, is critical of the committee's attempts to change at such a late stage the project's guidelines – a move which might deter other private investors from pursuing similar ventures.

The committee criticises the way the Department of Transport's presented its case and records the considerable difficulties faced by a committee mainly of laymen in assessing highly technical points made by expert witnesses who disagreed with each other.

In face of the opposing views of the Dartford and Thurrock councils, the committee decided that the crossing should be known as the Dartford Bridge, as it is already commonly known.

Poll tax critics step up protests

By Peter Riddell, Political Editor

CRITICS of the bill to replace domestic rates with the universal community charge or poll tax yesterday intensified their protests ahead of the start this afternoon of the two-day Commons second reading.

Over 30 Conservative backbenchers, including two former Cabinet ministers, Mr Michael Heseltine and Mr John Biffen, have now signed a motion instructing the standing committee on the bill to consider proposals to make the charge more fair by banding the payments in proportion to ability to pay.

The Speaker will announce this afternoon whether he will call the unusual motion, but the expectation last night was that he would decide against. Nevertheless, the largest Tory backbench revolt so far this parliament is expected on the main second reading vote.

Mr Jeff Rooker, Labour's local government spokesman, yesterday published an analysis of the impact of the proposals on his Perry Barr constituency in Birmingham, showing large numbers of losers, notably among owners of cheaper inner-city housing. He said there would be a redistribution in favour of the city's wealthier suburbs.

A pamphlet published this morning by the Tory Reform Group, a body of traditional mainstream Conservatives, says the charge would fail to achieve the desired accountability and showed every sign of being an administrative nightmare.

The group has already urged the retention of a property tax, at a much lower level, and the introduction of a local income tax. As interim measures the pamphlet (Reform of rates: Getting the Government off the hook) proposes the abolition of the 20 per cent charge payable by people on income support, the abandonment of the uniform business rate and the examination of the case for a banded community charge related to income.

Extended time for drinkers-up

DRINKING-UP time in pubs extended from 10 to 20 minutes is planned as the result of an opposition amendment accepted by the Government yesterday in preference to a Tory backbench proposal to allow 30 minutes for drinkers to finish their drinks.

During today's standing committee stage of the Licensing Bill, Mr Douglas Hogg, a junior Home Office Minister agreed that a 20-minute period would help to reduce closing-time tension in pubs.

Professional in amateur's clothing

Following his mild stroke on Monday, Lord Whitelaw is reported to be recovering and no permanent successor is yet to be sought. PETER RIDDELL assesses the consquences of his illness for Mrs Thatcher and the Government

LORD WHITELAW yesterday appeared to be recovering from his mini-stroke – to the universal relief of his many friends at Westminster. Yet, however fully he recovers, his collapse on Monday night has inevitably raised questions about his political future.

The word last night was that he had suffered no permanent damage and was in good spirits, receiving a series of visitors, including Mrs Thatcher for 20 minutes, as well as several fellow peers, and even enjoying a glass of champagne.

Lord Whitelaw will remain in hospital until next week and should be back at home in the borders for Christmas. The three-week parliamentary recess will give him time to recover and the Government line yesterday was that there was no reason why he should not return full-time. Any talk of his replacement was naturally, and firmly, dismissed.

However, Lord Whitelaw, who is 69, has already been talking about retirement at some stage in this parliament. The House of Lords is no longer a part-time job for senior ministers. It is no longer the quiet Elysian Fields to which Disraeli went as Lord Beaconsfield.

In addition to all his responsibilities as deputy Prime Minister and the Cabinet's chief conciliator, Lord Whitelaw has been fully stretched since 1983 in seeking to push the Government's legislation through an often critical, and unpredictable, Upper House where the Tories do not enjoy an automatic majority.

Moreover, he faces an exceptionally heavy load in the Lords next spring with the rates reform, education, housing and health bills likely to tax the Government whips' abilities to the full. It will not be an easy time for whoever leads the Lords and Lord Whitelaw has already warned that the Government faces defeat on certain measures, notably over aspects of the education bill.

Mrs Thatcher obviously wants Lord Whitelaw to stay on if he feels up to it after Christmas.

Nevertheless, there has inevitably been talk about a possible replacement. Lord Belstead, the experienced deputy leader, will be the caretaker while Lord Whitelaw is away, but is an unlikely long-term successor.

Lord Young, the Trade and Industry Secretary, has ambitions but is not a natural parliamentary performer and is unpopular with the Opposition in a House where good relations matter.

There are three other alternatives – Sir Geoffrey Howe, Mr George Younger, or one of the former Cabinet members who have recently been ennobled after retiring from the Commons last June.

Sir Geoffrey would be the figure with the greatest political weight. But even before Lord Whitelaw's illness, he was firmly resisting suggestions that he might move to the Upper House. He enjoys being Foreign Secretary and, as the letter to his constituency party chairman last Sunday showed, he has not not given up domestic poltical ambitions.

The point of the letter was to remind the political world of his distinctive viewpoint, perhaps best described as concerned Thatcherism. He will want to avoid an early reshuffle.

Mr Younger also enjoys his current post as Defence Secretary. But he is in a different category, not only as Lord Whitelaw's well-known nominee to succeed him, but also because in due course, as the eldest son of Viscount Younger of Leckie, he will have to decide whether to leave the Commons or to renounce. But he had a majority of only 182 in Ayr last June and the Tories will not want a by-election there.

A possible stop-gap would be to appoint one of the former Cabinet members now in the Lords –such as the former Mr Nicholas Edwards and the former Sir Humphrey Atkins.

All these choices pose problems – which is why in the short term Mrs Thatcher no doubt wants to put off any change, at least until next summer and autumn. And Lord Whitelaw himself is never to be underrated. After all, earlier this autumn, he helped to block the appointment of Lord Young, the Trade and Industry Secretary, as Conservative Party chairman, and was mainly responsbile for the departure of Lord Havers as Lord Chancellor.

As the epitome of the shrewd, clever professional hiding behind the facade of the bluff English amateur, Lord Whitelaw's position has been central to the balance of the Government, and his departure would create a large, irreplaceable gap.

White paper planned on secrets law next year

BY OUR POLITICAL EDITOR

THE Government is to publish a white paper next year on its proposals to reform section 2 of the Official Secrets Act, the catch-all and much-criticised clause which prohibits the unauthorised communication of official information.

Mr Douglas Hurd, the Home Secretary, announced in a parliamentary written answer yesterday that work on finding "effective, enforeceable and reasonable provisions" to replace section 2 was continuing and the Government intended to bring it to a conclusion later this session.

"When the work is complete, we shall lay before parliament a white paper setting out the Government's proposals for reform of the present law, with a view to early legislation," Mr Hurd added.

Ministers revealed last month that such work was under way, and the promise of early legislation is partly a reaction to the private member's measure sponsored by the Conservative backbencher, Mr Richard Shepherd. His Protection of Official Information Bill proposes a more radical reform of the law to encourage greater openness and to limit protection to more narrowly defined official information.

Mrs Thatcher has, however, said she does not believe a backbencher should put forward such a measure and has refused talks.

The measure's sponsors see Mr Hurd's announcement as merely a device to deter potential Tory supporters, and they intend to press ahead, arguing that no detail has been given of what the Government intends to do.

The bill has attracted widespread cross-party support, including that of a number of prominent ex-ministers.

Backbench move on benefit

By Ivor Owen

TORY backbenchers joined with MPs on the Opposition benches in the Commons last night in a tactical exercise to demonstrate to the Government the widespread support for preserving child benefit and ensuring that it at least retains its value in real terms.

They combined to provide a 214 majority (234-20) for **Sir Brandon Rhys Williams** (C, Kensington) when he sought leave to introduce a private member's bill designed to achieve this objective.

Its provisions – unlikely to reach the statute book – would require the Chancellor of the Exchequer to consider child benefit as well as personal tax allowances for annual uprating in line with any increase in the retail price index over the previous 12 months.

Two of Sir Brandon's leading supporters, **Mr Frank Field** (Lab,Birkenhead) and **Mr Tony Marlow** (C, Northampton N) forced a division in a bid to flush out the relatively few Government supporters willing to be identified as being prepared to back the official party line that it would be wrong to bind the Government to such a formula.

Sir Brandon recalled that Mr Nigel Lawson, the Chancellor of the Exchequer, played a leading part in introducing the indexation formula embodied in the bill when the defeat of the last Labour Government in a Finance Bill committee resulted in the so-called Rooker, Wise, Lawson amendment becoming law.

The Child Benefit (Uprating) Bill would also make future increases a charge on the National Insurance Fund.

Sir Brandon stressed the importance of child benefit, currently £7-£25 per week, in providing assistance for 7m families with children without involving any means test.

He said between 15m and 16m people were dependent, in one way or another, on means tested benefits and many of them saw no purpose in working or saving when they took account of the consequential effects.

Sir Brandon calculated that the introduction of the community charge or poll tax could result in a further 2m people being ineligible to apply for means-tested benefits.

He said: "This country cannot continue if we have an inexorably rising number of people obliged to apply for means-tested benefits."

Tories stage revolt over dog licence abolition

BY TOM LYNCH

THE GOVERNMENT'S majority fell to 57 last night when a number of Tories defied a three-line whip ministers had imposed on its proposal to abolish dog licences.

Mr Jeff Rooker, from the Labour front bench, attacked the Government for imposing the whip against his amendment to the Local Government Bill proposing that councils be allowed to impose a dog licence fee of between £10 and £20 and use the proceeds for a dog warden system.

At the end of the debate on the clause, in which only one Conservative spoke in support of the Government, Mr Rooker said the issue was not one of confidence – unlike tomorrow's vote on the poll tax – and argued that individual MPs should have been allowed to express their view.

Mr Rooker said his proposal was in line with the Government's philosophy, in other areas, of charging for services.

The amendment was defeated by 286 votes to 229, with a number of Tories abstaining and some voting in favour, including **Mr Tony Marlow** (Northampton North), **Mr Roger Gale** (Thanet North), **Sir Hugh Rossi** (Hornsey and Wood Green), **Miss Janet Fookes** (Plymouth Drake), **Mr Charles Irving** (Cheltenham) and **Mr Jerry Wiggin** (Weston-super-Mare).

Mr Michael Howard, the Environment Minister of State, said the "nonsense" of the existing 37½p licence had no support among MPs and critics of its abolition were far from unanimous about that the alternative should be.

He argued that a licensing system was not required in order to have effective control of problems relating to dogs. "None of the extensive regime of legislation in existence, none of the need for action to be taken, in any way depends upon licensing."

Mr Howard said evasion, already rife at 37½p, would be even greater if the fee was £10. "It is wildly optimistic to suppose that the dog wardens would be able to clean up the dog mess, deal with dogs which are dangerous, deal with stray dogs and deal with those who do not license their dogs."

However, Mr Gale and other critics of the Government's case, argued that the laws and by-laws for dog control were worthless without the resources to enforce them, which would be provided by a higher dog licence fee.

Mr Tony Banks (Lab, Newham North West) said there were 500,000 stray dogs in the UK, 2,000 of which were, destroyed every week.

Miss Fookes – who voted against the bill on its second reading over the dog licence issue – said the Government had "draconian" reserve powers in the event of a rabies outbreak.

More telecoms competition in EC urged

By Terry Dodsworth, Industrial Editor

THE EUROPEAN Community should push ahead with radical moves to open up the telecommunications industry to greater competition, the House of Lords says in a report published today.

The report, by the Lords European Communities committee, broadly supports the outline policy statement on telecommunications policy produced by the EC in a green paper earlier this year. But it goes further than the EC document, recommending that more of the market should be exposed to competitive pressures.

The Lords committee suggests it should be the "ultimate objective for monopoly services to be eliminated from all EC countries," and for most subscribers to have a choice of services.

It sees no reason why EC countries should not follow the UK and abandon the requirement that each subscriber's first telephone should be rented from the system operator.

The committee argues that other countries should consider establishing regulatory bodies – such as Oftel in the UK – which are independent of the system operators, and contends that there is no convincing justification for limitations on the resale of spare capacity on leased lines.

MANAGEMENT

target europe

ESAB

ESAB: a strategy to reshape an industry

Acquisitions are crucial for the Swedish welding group. Sara Webb reports

THE LESSON which ESAB of Sweden, the world's leading welding equipment manufacturer, might wish to teach to others about how to dominate the European market would have to be this - buy up as many of your competitors as possible and shut down surplus capacity, but keep the acquired brand names and sales forces.

This philosophy was born of necessity at a time when Esab and its competitors were embroiled in a tough battle for market share. They were operating in a mature industry which was suffering from overcapacity and which in the late 1970s was being affected by the consequences of high oil prices.

The main problem was the decline in steel and shipbuilding, two of ESAB's main markets not only for welding machines but also for "consumables" such as electrodes and welding rods. As oil prices rose, ESAB experienced a 10 per cent drop per year in demand for electrodes. The group believed the downturn was temporary, but by 1977 it was in bad shape – and stayed in the red for the next three years (1977-79), with losses exceeding SKr50m in 1978.

The board's reaction was to start closing down factories and selling stocks. The effect of this was limited; but the company broke even in 1980. What ESAB needed was a new management plan.

It was provided by Bengt Eskilson, who joined as managing director and chief executive officer in 1980 and who decided that ESAB's survival depended on it becoming the market leader in Western Europe.

Eskilson is someone who finds it impossible to conceal his enthusiasm for such problem-solving. He is also what could be described as an "Electrolux Man" – even though he never worked there. He had in fact previously worked in competition against Sweden's white goods giant when he was at a company called Asea Cylinda, and had seen how Electrolux tackled the problems of expanding in a mature market.

Furthermore, he was not afraid to asks questions directly of Goesta Bystedt (then the managing director of Electrolux) on how to overcome ESAB's difficulties.

"The answer was to buy up loss-making companies cheaply and then reorganise them in such a way that the customer is not disturbed," he says. This means keeping the same brand names, products, sales force and service, while trying to improve the "behind the scenes" picture so that ESAB benefits from scale in production, buying, distribution and lower administration costs.

The acquired companies – many of them substantial lossmakers – have boosted group turnover from about SKr1.5bn in 1980 to SKr4bn in 1985 and 1986, and have been accompanied by factory closures wherever ESAB found it necessary to cut production. They include the following acquisitions:

- in 1980, ESAB Varios-Fabrieken in the Netherlands (factory subsequently closed) and Hancock GmbH in West Germany (factory closed);
- in 1982, ESAB Iberica SA in Spain, Hancock Gas Cutting UK (in the process of closing), and GKN (factory closed);
- in 1983, Werner Eichholzer AG in Switzerland, BOC Welding Division UK, and Arcos SPA in Spain;
- in 1984, IIG Welding Divison in Ireland;
- in 1985, Philips Welding Industries Europe (closed factories in Sweden, the UK and in the process of closing one in the Netherlands).

In the last five years alone, ESAB has closed 15 electrode factories, three wire factories and five machine factories. It has proved expensive, and the fall in oil prices in 1986 meant a further setback as the offshore sector faced a new "shipyard crisis"; the positive effects have taken time to show up in ESAB's results.

Laying off staff is costly and in some countries fraught with difficulties because of the time it takes to negotiate with the unions. "It's impossible to lay off people in Spain," complains Eskilson, adding that France and Italy are also difficult, and in the Netherlands "there are very rigid rules on how to do it, and it is time-consuming and expensive". In his experience, the easy places are the Nordic countries, West Germany and the UK.

ESAB, the world's leading welding equipment group, showed profits (after financial items) in 1986 of SKr150m (£13.8m) on invoiced sales of SKr3.96bn (£364m).

Its main business areas are:

- **welding consumables such as electrodes, solid wire, and flux-cored wire, which last year accounted for SKr1.95bn (or 49 per cent) of invoiced sales;**
- **welding machines, including standard, semi-automatic, and automatic machines which account for 39 per cent of group sales, or SKr1.528bn last year;**
- **cutting machines, using gas, plasma, lasers and water jets, account for 8 per cent of sales, or SKr329m in invoiced sales; and**
- **gas welding equipment made at a joint venture between ESAB and Aga of Sweden, showed invoiced sales of SKr153m (or 4 per cent of the group total).**

ESAB's main competitors in the welding equipment sector include Lincoln Electric of the US, and Air Liquide of France in the French, Italian, Spanish and Belgian markets.

Today the group produces its standard welding and automated machines in Laxa (Sweden) while its cutting machines are made in West Germany. It has its two stick electrode factories in Sweden (Gothenburg and Perstorp), while the general electrodes are produced in the UK, West Germany, France, Spain, and Italy. Flux-cored wire is produced at Waltham Cross near London and at Utrecht, in the Netherlands.

"It is essential to maintain the acquired market share by retaining the multi-brand identity and serving the customers with the same products with the same people as before," says Eskilson.

ESAB is now a multi-brand company offering at least two – and usually three – separate brands in each country. In the UK, it offers seven different brands (ESAB, Murex; Arcos/Lincoln, Brinal, Hancock, Big and Filarc), following the acquisition there of the welding activities of BOC, the industrial gases group, the welding division of the GKN engineering group and the welding operations of the Dutch Philips group.

The BOC deal helped to widen ESAB's product range and the group decided it would be more efficient to centre the development and production of flux-cored wire for the group in Waltham Cross where the BOC operations had been established.

For a welding company, one of the main problems is standardisation as different countries have different voltages. "We have to design products to meet different market needs," says Eskilson.

With stick electrodes some markets use alternating current (AC), some direct current (DC) and clearly in an AC country there is no market for DC hand welding equipment. Different local standards, such as for safety, mean it is extremely difficult to standardise products.

There are also what one might call the cultural differences. For example, in West Germany, customers require a much higher performance than in Italy, where customers actually expect equipment to be less durable.

ESAB says that when moving into a market it has to follow the market leader as far as design goes. "The market leader sets the standard," says Eskilson. So if the market leader in Germany produces cooling equipment with big wheels, ESAB has to do so too, until it is in a dominant enough position to start introducing different models.

The welding industry (especially electrodes and to a lesser extent, welding machines) is also characterised by great brand loyalty. Customer loyalty is akin to that in the consumer market, claims Eskilson. Customers have strong preferences for different colours of coated electrodes and even for the different smells during welding.

Management in the other European countries is nearly always predominantly local. ESAB has recently embarked on an extensive training programme for its sales staff which it hopes will make them "more useful when it comes to solving the customers' problems, and not just good at selling the products," according to Jan Lindberg, head of information.

As part of the training, they have had to learn a lot more about the products and mechanisation processes so that they can advise on the choice of cutting and welding process equipment.

The group is also working on developing a system for trimming inventory and organising the way products are transported to ESAB's subsidiaries. This was considered particularly important because the carrying cost for inventory was calculated to be about 1 per cent of inventory value per week held. However, it is taking time to introduce and continue developing the system.

When asked if he would have tackled ESAB's problems and growth in another way – given the benefit of hindsight – Eskilson says he would have acted faster and put in more management so that he had people busy penetrating the market as well as restructuring.

Esab intends to continue its strategy of buying market shares, particularly in central European countries. It is already strong in Scandinavia, the UK and the Netherlands, but wants to strengthen its position further in Italy, France and West Germany. Indeed, this week it announced the purchase for an undisclosed sum of Held, a German maker of lasers for welding and cutting and a world leader in its sector. The company will be called Esab Held.

Previous articles in this series appeared on October 14, 21, 28, November 2, 13, 18, 25, December 2 and 7.

The chief executives who are just wild about their products

ONE the many stories told about the legendary Akio Morita, co-founder of Sony, is that he has special poacher pockets fitted in his well-cut suits so he can carry the Japanese company's latest electronic gadgets around the world with him. He is not a closet smuggler – it's just that he likes to show Sony's wares off at the New York dinner table, or on the London conference platform.

America, too, has bosses who are proud of their products – one of them, the ubiquitous Victor Kiam, grins out of the television screen almost every Christmas, proclaiming that he liked Remington shavers so much that "I bought the company".

In Britain, most top-level manufacturers are reticent about their wares. For every Sir John Egan, promoting Jaguar cars like crazy, there are a thousand chief executives who either don't know about their products, or don't care. Out of 30 companies visited by a researcher from Kingston Polytechnic two years ago, only three cared enough even to put pictures of their products in their boardrooms.

Such myopia is not just careless, but potentially fatal, warns "Winning Ways"*, a compendium of lessons about "how winning companies create the products we all want to buy". For if top management fails to care – or fails to broadcast its commitment – why should its employees bother to help design and make things well? And if the bosses have no direct contact with the way customers use the product (or why they don't), then what chance does their company have of succeeding?

"Care about your products" is one of a dozen themes collected by the book's author, James Pilditch, from his long experience as the owner of a once-thriving design consultancy, and from his subsequent experience as chairman of a National Economic Development Office working party on design and commercial success.

In the latter capacity, and again in the book, Pilditch drew on a wide range of material from other writers, much of it familiar to readers of this page. The authors he quotes most extensively – much of the book is almost self-consciously derivative – range from Peters and Waterman ("In Search of Excellence") to Kenichi Ohmae ("Triad Power") and even (to declare an interest) my own writings ("The Design Dimension").

This degree of sourcing may deter the best-read executive, but even such a paragon will admire the way Pilditch has pulled together, into 250 elegantly-written, personal pages, such topics as visionary leadership, competitive analysis, market research, corporate organisation, the role of engineers, the value of inter-disciplinary teamwork, and even the importance of employee training.

For the regular business book reader who is familiar with all that, the most interesting chapter is the one on corporate culture ("create the climate for success", as Pilditch puts it).

Here he allows his own direct experience freer rein, especially when he gives his view of why the motivation and performance of his consultancy declined after he relinquished executive power; the company was eventually sold to a competitor.

Returning to the importance to manufacturers of "the primacy of the product", he quotes Sir Christopher Hogg, the chairman of the Courtaulds chemical and textile group, as saying that "if you want to influence a whole organisation, your actions are more important than your words. If you want the company to do the right things, you'd better darned well do the right things in the centre."

For Hogg, like Morita and Egan, that includes taking a strong interest in one's company's products. In the past, when Hogg visited one of Courtaulds' many plants he would just walk around the factory floor. Now he asks first to see its products.

As Hogg himself puts it: "I have been shifted a considerable distance in the spectrum away from (an) administration orientation, in which it is all too easy to forget that a company exists only by reason of its ability to satisfy customers and markets - and towards (a) market, customer and product orientation."

*Harper & Row (UK), £12.95.

Christopher Lorenz

FT LAW REPORTS

Diamond insurance must be paid

EURO-DIAM LTD v BATHURST

Court of Appeal (Lord Justice Kerr, Lord Justice Russell and Sir Denys Buckley): December 8 1987

AN UNDERSTATED invoice sent with sale or return goods to a foreign country at the recipient's request does not avoid the sender's insurance on the goods on public policy grounds if, though he realised it would probably be used to diminish foreign tax, he was not a party to any conspiracy so to use it and any potential benefit to himself was negligible.

The Court of Appeal so held when dismissing an appeal by the representative underwriter of two Lloyd's syndicates from Mr Justice Staughton's decision (*[1986] 2 FTLR 639*) that they were liable under an insurance claim by Euro-Diam Ltd.

LORD JUSTICE KERR said that Euro-Diam were diamond merchants carrying on business in London. Their managing director was a Mr Laub.

Their insurance covered diamonds and stones. It was extended to cover confiscation other than by the government of the sender. Clause 3 of the extension provided: "(a) Warranted that the assured comply ... with the laws ... of any country within whose jurisdiction the property may be. (b) Should failure to comply with the above warranties prejudice the insurance to the extent of a loss, no liability shall attach hereunder."

A Mr Bonim, an Israeli diamond dealer, was introduced to Mr Laub in London because he wanted diamonds for sale in West Germany. He did not have German residence or work permits, but had a working relationship with a German firm of dealers known as Verena. He dealt with Mr Laub on the basis that any diamonds selected by him would be treated as consigned to Verena on sale or return.

As a result of his visit, in November 1981 Euro-Diam sent a consignment of diamonds to Verena on sale or return. It was correctly invoiced.

Another consignment was sent sale or return in February 1982. It was correctly recorded by Mr Laub in Euro-Diam's register and consisted of 39 diamonds totalling about 181 carats at $223,416. The invoice showed the correct number of carats but, at Mr Bonim's request, it showed an understated price of only $131,411.

The resulting benefit to Verena was a reduction of $11,960 in Turnover Equalisation Tax, levied at 13 per cent on imports into West Germany.

In May 1982, Verena sent seven post-dated cheques totalling $70,000 to Euro-Diam in purported payment of the consignment, but all were subsequently dishonoured.

A few days later a package, *containing about* 95 carats from the February consignment and a small residue from the November consignment, disappeared from Verena's premises. Those diamonds were then still Euro-Diam's property. Shortly after the disappearance of the diamonds, Verena went into liqui*dation and their participants left* West Germany.

Euro-Diam established a loss by theft of $142,173 under the policy. Mr Justice Staughton held that they were entitled to recover the value of the diamonds. The main ground of defence was that Euro-Diam, at their customer's request, had issued the understated invoice.

Mr Justice Staughton concluded that Mr Laub must have realised that the probable object was to deceive the West German customs, but he did not accept that Euro-Diam had conspired to commit any offence. He held that Euro-Diam had committed an ofence under West German law, but concluded that on a balance of probability a court in that country would not have ordered confiscation.

On the present appeal the issue was whether Euro-Diam's claim under the policy was barred because of the false invoice.

The relevant principles to the defence of *ex turpi causa non oritur actio* [an action does not arise from an illegitimate cause] could be summarised:

(1) The defence ultimately rested on a principle of public policy that the courts would not assist a plaintiff who had been guilty of illegal or immoral conduct of which they would take notice.

It applied if in all the circumstances it would be an affront to the public consience to grant the relief sought, because the court would thereby appear to assist or encourage the plaintiff in his illegal conduct, or to encourage others in similar acts.

The problem was not only to apply the principle, but also to respect its limits in relation to the facts of particular cases in the light of the authorities.

(2) The authorities showed that in a number of situations the *ex turpi causa* defence would *prima facie* succeed. The main ones were:

(i) where the plaintiff sought, or was forced to found his claim on an illegal contract or to plead its illegality in order to support his claim; (ii) where the grant of relief would enable the plaintiff *to benefit from his criminal* conduct; (iii) where, though neither (i) nor (ii) was applicable, the situation was residually covered by the general principle in (1) above.

(3) The *ex turpi causa* defence must be approached pragmatically and with caution, depending on the circumstances. That applied particularly to cases which, at first sight, appeared to fall within (2)(i) or (ii) above.

(4) Most of the situations and authorities in (1) to (3) had no direct application between Euro-Diam and the insurers, because the insurers were obviously entirely innocent throughout, and because the insurance contract itself was unaffected by illegality.

The judge concluded that the *ex turpi causa* defence failed. He was right for the following reasons:

(A) Mr Laub's issue of the understated invoice was undoubtedly reprehensible, but he did not issue it for his own or Euro-Diam's purposes. He issued it at Mr Bonim's request.

The understated invoice had no bearing on the loss of the diamonds covered by Euro-Diam's policy. Also, it involved no deception of the insurers, since the true value of the diamonds was recorded in Euro-Diam's register and the correct premium was paid.

In those circumstances there could be no question of affront to the public conscience if Euro-Diam's claim were upheld. Public policy did not require the court to hold that it must be rejected *in limine* on the basis of the *ex turpi causa* defence.

(B) The matters referred to in (2)(i) above had no application. Euro-Diam did not have to rely on the invoice to establish their claim, since the policy provided *that the basis of valuation* should be "as per register", and the register contained a correct record of the value.

(C) Equally the matters referred to in (2)(ii) were not applicable. Euro-Diam derived no tangible benefit from the understated invoice. The possible goodwill *advantage of having acceded to* Mr Bonim's request was so shadowy as to be virtually negligible.

(D) With regard to the position between Euro-Diam and Verena, it was difficult to see how Verena could successfully rely on *ex turpi causa* in any claim by Euro-Diam against Verena. Mr Bonim would be treated as having acted on Verena's behalf in asking for the invoice, and Verena as having ratified his conduct when they used it to deceive the West German customs.

(E) The mere fact that the understated invoice might prove an embarrassment to the insurers on any subrogation proceedings could not in itself be sufficient to tip the scales of public policy in their favour.

(F) The present case was analagous to *Pye v BG Transport [1966] 2 Lloyd's Rep 300* where plaintiff sellers had agreed with buyers that goods to be shipped to Persia would be invoiced at less than the true price, in order to deceive Persian customs authorities. The goods were stolen in the UK while in the custody of defendant carriers. The *ex turpi causa* defence failed.

The suggestion that that case was wrongly decided was not accepted.

In *Geisman [1978] QB 383* the plaintiff's house was burgled and insured goods were stolen. The defendant insurers declined to pay for jewellery imported illegally. Their reliance on *ex turpi causa* was upheld.

The case was correctly decided. The plaintiff's position there was very different from that of Euro-Diam who did not smuggle the diamonds into West Germany and did not make use of the understated invoice.

The *ex turpi causa* defence failed. The insurers submitted that the policy was subject to a warranty implied by law to the same effect as section 41 of the Marine Insurance Act – *viz* that the adventure insured was lawful and must be carried out in a lawful manner.

The judge rightly rejected the submission. This was not a *marine policy and did not insure* any adventure. No implication of warranty by statute could arise. Nor was there any basis for the implication of such a warranty at Common Law.

The appeal was dismissed.

Lord Justice Russell and Sir Denys Buckley agreed.

For Euro-Diam: Jeffrey Gruder (Ince & Co).

For the insurers: Julian Malins (Clyde & Co).

By Rachel Davies
Barrister

THESE REPORTS are published in volume form with the full text of the judgments. For subscription details contact Kluwer Law Publishing, Africa House, 68 Kingsway, London WC2B 6BD. Telephone 01-831-0391.

APPOINTMENTS

Board changes at Refuge

REFUGE GROUP and Refuge Assurance have made a number of board changes and appointments from January 1. **Mr Tom Booth** takes over as chairman of Refuge Group following the retirement of **Mr Paddy Smith.** He relinquishes his post as chairman of Refuge Assurance. **Mr Gerald Ramsden** becomes deputy chairman of Refuge Group, and chairman of Refuge Assurance, relinquishing his post as managing director of Refuge Assurance. **Mr John Cadworth** becomes deputy chief executive of Refuge Group. He moves to head office in Manchester from the company's London office where he was investment secretary. The new managing director of Refuge Assurance is **Mr Norman Peterson,** who has been actuary and general manager (administration). Four new directors join the board of Refuge Assurance: **Mr Rex Woolstencroft,** who becomes general manager (administration); **Mr Roy Betteridge,** who is appointed actuary; **Mr Mike Smith,** who becomes general manager (marketing); and **Mr Frank Webster,** who is promoted from deputy to chief investment manager at the London investment office.

*

THAMES TELEVISION has appointed **Mr Ewart Needham** as director of production, succeeding **Mr Fred Atkinson** who retires in March. **Mr John White Jones** will continue to be production director at Teddington and will deputise for Mr Needham. **Mr Dave Cottrell** will be promoted to production director, Euston, responsible for technical operations and the film department.

*

Mr Jim Donaldson, development director of P-E International, has been elected chairman of the MANAGEMENT CONSULTANICES ASSOCIATION for 1988. **Mr David Morris** of Peat Marwick McLintock Management Consultants is to be vice-chairman.

Mr Ian Swan, managing director, GRE Personal Financial Management

Mr Ian Swan has been appointed managing director of GRE PERSONAL FINANCIAL MANAGEMENT - Guardian Royal Exchange's direct sales *arm. He was marketing director.* **Mr Martyn Baker** has been named the first managing director of GRE PROPERTIES, set up to manage GRE's property portfolio.

*

Mr Michael M. Walter, deputy managing director, Aquascutum Group, has been appointed managing director of AQUASCUTUM LTD. He will continue to be responsible for sales and marketing.

*

THE HAISTE GROUP has appointed **Mr Brian Evans** as eastern regional director, Peterborough, succeeding **Mr Steven Day** who is transferring to Leeds as northern regional director. Mr Evans was director of Haiste Mechanical and Electrical.

*

MARINEX PETROLEUM has appointed **Mr Michael Seymour** *as managing director for the new* merged group of oil exploration companies which involves Teredo Oils. **Mr John Cornish** continues as chairman, and there are four new directors: **Mr Crispian Hotson, Mr Jim Palmer, Mr Angus Mackenzie** and **Mr Fred Wellhauser. Mr Jules Poscente,** the president of Canada Northwest Energy - the largest shareholder in the Marinex group (27.25 percent) - remains on the Marinex board as a director, as does **Mr Dan Williams,** one of the founders of Marinex Petroleum. **Ms Charmian Johnson** becomes an executive director and company secretary. **Mr Dennis Paterson** is exploration manager.

*

Mr Alan Gaynor has been appointed managing director of UNDERWOODS (CASH CHEMISTS), retail subsidiary of Underwoods. He joins from Do-It-All, W.H. Smith's DIY chain, where he was operations director.

*

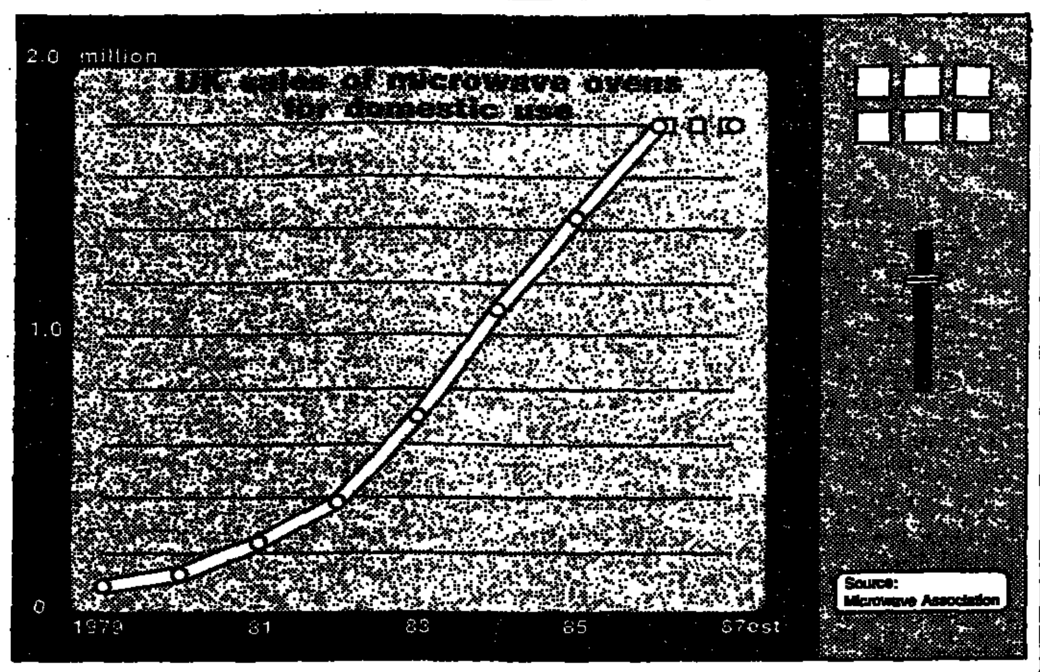
MORGAN GRENFELL UNIT TRUST MANAGERS, a new company formed to take the Morgan Grenfell Group into the unit trust market, has made the following appointments. **Mr Tony Fraher** has become managing *director.* He was head of investment, Britain, for Allied Irish Bank, and managing director of Grofund. **Mr Simon Ballard** has been appointed marketing director. He was marketing director of Oppenheimer Trust Management. **Mr Paul Hyde,** formerly sales director of Oppenheimer Trust Management, has been appointed sales director. **Mr James Fox** will be chairman. **Mr Martin R. Wade** joins MORGAN GRENFELL INCORPORATED as managing director on January 1 to direct North American corporate finance and mergers and acquisitions advisory activities. The company is the New York-based North American investment banking subsidiary of the Morgan Grenfell Group. Mr Wade comes from Shearson Lehman Brothers where he was a senior vice president responsible for divestiture activities for clients.

*

Mr Hugh Bryden has been appointed resident director in Saudi Arabia of COLT INTERNATIONAL.

TECHNOLOGY

New wave ovens put idiot cooks in picture



Jane Rippeteau examines innovations in the UK microwave market and how this is forcing a rethink in food products

PLANNING to buy a microwave oven for Christmas? Stop!

If you buy too soon, you will miss New Year's coming attraction: the Japanese company Brother Microwave is planning to introduce for UK consumers what must be the most idiot-proof oven yet.

In an advance on similar electronically-equipped devices from Toshiba, Sharp, Hitachi, Philips and others, the machine will have a keypad on the front with six pictures: a cake, a roast of beef, a chicken and so on. Say you have a chicken. You just pop it in the oven, press the keypad with the chicken picture and touch the start button.

The oven does the rest. Decked out with a bank of microprocessor-based sensors, it measures the volume of food, its temperature, and how long it will take to cook at the necessary heat. Out comes a browned roast, done to medium. "It will be the most advanced oven on the market," claims Mel Tomlinson, northern area sales manager for Brother. The oven, says John Reardon, buying manager in the electrical department of Selfridges the Oxford Street store, "will think for itself. It's a leap forward."

Of course, at £459 you might not be tempted by such a feature-rich device. Microwave ovens can now be purchased for around a quarter of that price. South Korean manufacturers have swept into the low end of the market, under-pricing Japanese makers and supplying such UK High Street mass-market outlets as Boots and Dixons.

Until recently, Boots carried a basic microwave oven made by Samsung for £89.99, according to Maureen Middlemiss, housewares supervisor at Boots in Regent Street. She will soon join other branches in carrying Boots' own brand oven at £129.

Such choice, from bare bones versions to pricey high-end entries with combination microwave and convection ovens replete with electronic controls, has helped propel this market from barely 100,000 in domestic unit sales eight years ago to about 1.8m annually today, according to Jane Facey, senior consultant for the Microwave Association.

The rate of growth flattened this year for the first time in the UK domestic market. Even so, the business is now worth about $400m a year, and by the end of 1987 one-third of UK households will have a microwave oven, says Facey.

The situation has not been lost on food manufacturers. "The food companies initially thought this was going to be another flash in the pan," says Facey. Now, she adds, "they are helping to stimulate the market."

Tardy participants in the new cooking technology, food suppliers were initially content just to label their products with microwave cooking instructions. Unilever's Birds Eye division, for instance, began such labelling in 1978, according to marketing manager David Elmer.

Now, food suppliers are waking up to the need for products especially developed for the ovens. Because microwaves cook essentially by boiling or steaming food, their effect on the food product is totally different from that of a conventional oven.

Raoul Pinnell, general marketing manager at Findus Frozen Foods, which this autumn unveiled a specially-developed frozen pizza for microwave cooking, points to an interesting American product: a hot fudge sundae. The sundae takes advantage of the microwave's tendency to heat the chocolate fudge sauce before it melts the ice cream, he says, adding that the only trouble is that a split second fault in timing will ruin the product. "You get defrosted ice cream," he says.

That product is unusual. Until now, manufacturers have taken the lead by adapting their machines to get around the effects of microwave cooking, rather than waiting for food suppliers to adapt their products. For instance, the initial disenchantment of grey roasts was overcome by adding a grill or conventional convection oven to the microwave in a combination unit offering the advantage of both cooking methods.

Today, combination ovens are capturing sales from plain microwaves; they allow a user to brown meats by conventional convection while also gaining the convenience and speed of the microwave.

Also, strides are being made in developing cookware for microwaves that counteracts what users see as their negative cooking effects. Microwaves, for instance, do not do well with such pastry products as pies, pizzas, or even French-fried potatoes. That is because under microwave "boiling" the crusts or fries get soggy, not crisp.

To the rescue has come a new patented material developed in the US. The British company John Waddington has secured UK and European rights for marketing the material, called receptor or susceptor. Usually in the form of a tray, the material heats to a much higher temperature and cooks whatever is on it at a much higher temperature than the boiling-point ambient heat of normal microwave cooking. So, a pastry or pie crust on a receptor tray will develop a crisp crust, while the rest of the food in the oven cooks at the microwave's boiling temperature.

The challenge facing food suppliers is like that detergent makers faced once automatic washing machines arrived

McCain Foods of Scarborough recently put the material to another use. Its new "Microchips" French-fried potato product is packed in a small box lined with the receptor material. The fries themselves were developed in a proprietary process to work properly with this cooking method, according to the company. "You can't just put ordinary food into a receptor box and get satisfactory results," says McCain.

McCain, Birds Eye, Findus Frozen Foods and others are now coming out with frozen pizzas using the receptor trays; the pie rests on a tray so the crust will crisp. Still, to Pinnell of Findus, these products are compromises rather than new-technology food items. To Pinnell, the crisping pan, while successful, is a way of getting around the microwave's cooking method rather than using it to advantage.

"It's very important to recognise that this new thing in people's kitchens does perform in a different way," he says. "We have to respond to that with products that are different." Manufacturers in the frozen food sector are particularly at risk, he notes, because a high percentage of people who eat frozen foods also use microwave ovens.

"We need products that use the way microwave cooks, rather than trying to get around it," he says. "It's not easy."

He likens the technical challenge facing food suppliers to the one that faced clothes detergent manufacturers after automatic washing machines came out. At the time, it was quickly discovered that conventional washing detergents could not be used in automatic machines. Completely new detergents, producing fewer suds but equipped with powerful cleaning agents, had to be developed.

"We face a similar challenge," says Pinnell.

WORTH WATCHING

Edited by Geoffrey Charlish

Belgian brilliance lights the darkness

HORIZON of Schoten, a new Belgian company, is introducing its Lumilight plastic sheeting into the UK via KWR Chemicals of Waltham Cross, Hertfordshire.

The material, based on zinc sulphide, is able to store incident light and release it, with gradually decreasing brilliance, over periods of three hours or more.

Thus, in safety applications, doorways or signs incorporating Lumilight will give a greenish-yellow glow in the darkness following a lighting system failure.

Horizon also foresees marine safety applications (the material is not affected by water) and use on aircraft. Young persons' clothing and toys are also a target market (the material is not radioactive or toxic).

Although the properties of zinc sulphide are well known, the achievement of Horizon lies in encapsulating the fragile crystalline substance in polypropylene. This protection, together with special production processes and additives, are said to give Lumilight its high efficiency and emission time, while preventing degradation of the zinc sulphide in either electric light or daylight.

The material costs about £60 per square metre in the UK.

Australian visions of digital clarity

NEXT YEAR, television programmes about life at sub-zero temperatures will be sent digitally from Davis Base in Antarctica to an earth station at Ceduna in Southern Australia.

Digital transmission was necessary because the channels available on the Vista Intelsat satellite are not technically suitable for the normal broadcast TV analogue bandwidth.

But in addition, transmission will be relatively cheap, as the compressed digital transmission used will reduce the bandwidth and therefore the cost.

GEC Video Systems in the UK is supplying the codecs (digital coding and decoding) equipment at both ends of the transmission service.

Codecs turn a TV picture into a digit stream from which "redundant" information digits are removed, reducing the transmission bit rate. For example, when one TV frame differs only a little from the previous one, only the changed data is sent.

The systems are mainly aimed at industry and commerce for videoconferencing, in which a number of executives, a few miles or thousands of miles apart, can conduct a conference without travelling to one location or the other.

Some loss of picture quality, particularly during motion within the picture, can be evident at lower digital transmission rates.

When the necessary digital channels become generally available over the ISDNs (integrated services digital networks) that the world's telephone companies are planning, such conferences could become commonplace. At the moment, however, special links are usually needed.

Rotting remedy for plastic waste

A BIO-DEGRADABLE polymer called poly-3-hydroxybuterate (PHB), produced from components that are not derived from petroleum, is available in small research quantities from Goodfellow Metals of Cambridge, UK. Bio-degradable plastics, unlike the normal variety, decompose with time in the environment. Likely applications are in packaging and in medicine.

The PHB product is synthesised by many strains of bacteria when they are exposed to unfavourable growth conditions.

French keep things cool in the tropics

LOW-COST refrigeration for the poorer, tropical parts of the world where there is no electrical power and maintenance can be difficult, has been developed by French company Brissonneau et Lotz Marine (BLM).

There are no moving parts, minimising maintenance. The system is based on 25 litres of methanol and activated carbon micro-granules in a panel exposed to the sun.

The black particles are very efficient at absorbing heat which vapourises the methnol and sends it through a refrigeration cycle based on the cooling effect of evaporation.

The cool of the night liquifies any vapour left in the panel and the reduced pressure draws the system's methanol back, to be re-absorbed by the carbon.

Personal power readily at hand

A HAND-HELD computer terminal weighing only 650gms, and claimed to have the power of a personal computer, is offered by Victor Micronic (UK) of Tring, Hertfordshire.

With one megabyte (1m characters) of memory, the new M1000 is aimed at the retail, stock control, health, utilities and maintenance markets. It can record large volumes of data, using either the keyboard or a bar code reader that can be plugged in.

The M1000 communicates with its mainframe computer base over a phone line, via an infra-red connector, and costs about £1,250.

Victor Micronic (UK), part of the Swedish company Datronic, claims 36 per cent of the UK hand-held market and a user base including Cadbury-Schweppes, Unichem and British Gas.

CONTACTS: KWR Chemicals: UK, 0992 768686. GEC Video Systems: UK, 0734 884490. Goodfellow Metals: UK, 0223 69671. BLM: France, 40 301050. Victor Micronic: UK, 044282 6634.

JOBS

What today's young hopefuls want from work

BY MICHAEL DIXON

WHAT are the things you most want to get out of working life? When that question was put recently to 339 students at Oxford and Cambridge, they were largely agreed on the answers.

First on their list, by a long way, was enjoyment. Next came good pay. Third, just behind, was intellectual challenge.

The young people taking part in the survey named those three blessings far more often than they mentioned any other wishes. The also-rans included, ranking fourth to seventh respectively, the opportunity to do something one is good at, promotion prospects, travel, and opportunity to make a worthwhile contribution to society.

The list shows how attitudes have changed since the previous time I saw a survey of the career hopes of British university students. There is no doubt what would have been ranked top by the 907 undergraduates, all at Cambridge, covered by the earlier study. It would have been an opportunity to contribute beneficially to society. But that was 18 years ago.

In those days profit-making was in such bad odour with studious youth that fewer than half of the 907 undergraduates said they would even consider joining a business company. Their most prized aspiration was to go on to a research degree with a view to staying at university until they were dead, if not longer. Those with little chance of entering an academic career were largely aiming to join an unarmed public service or, at the worst, a nationalised concern.

Their 1987 counterparts at Oxbridge are different. The new survey report – available from its main author Fiona Hollands at Christ Church, Oxford OX1 1DP – shows that the proportion who "might like" to enter the public services was precisely matched by the share who firmly would not at 47 per cent apiece, with the remaining 14 equivocal.

But two in every three said that, if they had a choice between the public and the private sector, they would opt for a business job compared with only one in five who were inclined the other way. Moreover nearly three quarters thought they would like eventually to set up their own business, in most cases after gaining experience in an established company.

Whereabouts in the private sector they expected to go to work was a morally complicated question.

While they on the whole considered industry the most deserving subsector in principle, in practice only 44 per cent thought they were as much as fairly likely to end up employed by an industrial concern. The bulk of them felt attracted against their better nature to financial work.

The main reason for the appeal of finance, of course, was "good salary" which was more than enough to compensate for what many of the students saw as the two major drawbacks of that kind of work. One was too much pressure and rat-racing. The second was too great an emphasis on achievement and profit.

Industrial jobs, on the other hand, were thought to offer the advantage of challenging work. But it was viewed as outweighed by shortcomings such as meagre status and, still more decisive, low salary.

So it would seem that, by comparison with the Cambridge undergraduate generation of about two decades before, today's Oxbridge students are long on materialism and short on ideals. That, however, is perhaps not altogether without its mercies.

Although I was one of the numerous people who admired the 1969 generation's concern to do good for their fellow beings, I had certain misgivings about the way some of them proposed to go about doing it. For instance, high on their priority list was the revolutionary elimination of, among a good many others, the *lackeys who work for the capitalist press.*

In the matter of doing good, my preferred approach is the one advocated by the philosopher Sir Karl Popper in chapter 18 of his Conjectures and Refutations (Routledge and Kegan Paul, 1972).

"Choose what you consider the most urgent evil of the society in which you live, and try patiently to convince people that we can get rid of it. But do not try to realise these aims by designing and working for a distant ideal of a society which is wholly good," he said.

I cannot see how that approach to striving to improve society is excluded by – even if it is easily forgotten in – the pursuit of enjoyment, good pay, and intellectual challenge in one's working life.

Nevertheless, while today's Oxbridge students may be less idealistic than their predecessors of the late 1960s, it is doubtful that their prime career aims are fully realistic. For one thing, although work can be enjoyable, my experience is that enjoyment is for the most part only a by-product of the job. It is usually felt after the day's tasks are done. The best you can hope to gain consistently when you are actually doing them is surely satisfaction.

What's more, in emphasising their desire to be confronted by *intellectual* challenge, the students may be overlooking the fact that many if not most of the important challenges at work are of a different kind. They are *particularly so in the case of managers* whose lives are often blighted by goings-on which no rational person would expect.

My favourite example is the one cited by Alfred Sloan, chief executive of General Motors from 1923 to 1946. "You may *find 50 men sitting on a roof* somewhere because of a mix-up," he said*.

For the manager who found them there, the intellectual challenge would be to work out how so many of them came to be up on the roof in the first place – which Mr Sloan, alas, failed to explain. But the important challenge would be to persuade them to come down again and set about doing something useful instead. And it is the ability to overcome challenges of that sort which really deserves good pay.

Scattered

NOW to two geographically scattered jobs being offered by staff of the Anthony Nevile International consultancy. Since they may not name their clients, they promise to abide by any applicant's request not to be identified to the employer at this stage. So does the other recruiter to be mentioned later.

The first opening is for a production director with a company in Scotland, which develops and makes specialised engineering equipment. Duties include all manufacturing and support processes such as works engineering and purchasing.

Besides having experience in line management in the light engineering or electronics field, and relevant paper qualification, candidates must be commercial in attitude and good at planning.

Pay around £35,000, with car among other benefits.

Inquiries to Graham Walker at 69 Midton Road, Ayr, Scotland KA7 2TW; telephone 0292 287969, telex 858902 Baron G.

Meanwhile, in the southern branch of the same consultancy, Tony Nevile wants a finance director for a high-technology communications group which has grown to £9m sales in two years. The work entails mergers as well as financial management across the three subsidiaries. Base is west of London.

Candidates should be qualified accountants with success in the specified fields.

Pay around £30,000 plus profit share and car.

Inquiries to Mr Nevile at 31 Castle Street, Farnham, Surrey GU9 7JB; tel 0252 711311, telex again 858902 Baron G.

City systems

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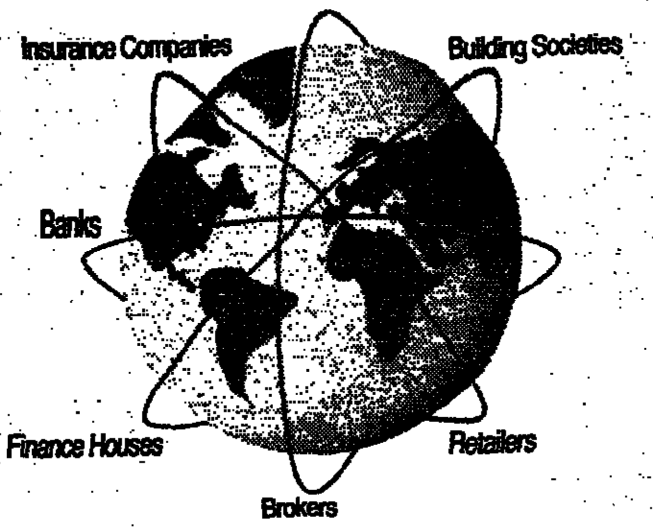

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Television/Christopher Dunkley

Government hackles raised again

For the BBC, 1987 began with a bang and looked as though it might end with a whimper. The bang was the noise of Special Branch going into Broadcasting House, Glasgow, to remove the *Secret Society* series. The whimper, at the end of November, was the carefully muffled sound of the Government admitting that, all but one of the programmes having been returned earlier, the last, devoted to the Zircon spy satellite, had now been restored to the BBC and – despite all the sound and fury in the spring – nobody was to be prosecuted.

Opposition MPs accused the Government of sneaky and disreputable tactics for making this admission as stealthily as possible: in a written reply, on a Friday afternoon when most MPs were on their way to their constituencies. But the year did not end there. Within the week even the faint echoes of that whimper had been drowned by another bang. This time it was the noise of the Government beating on the door of the judiciary to demand a gagging writ to prevent BBC Radio broadcasting a series called *My Country: Right Or Wrong*.

In both instances the subject was national security. In the current case (on which some sort of decision is expected today) the Government appears to have been particularly worried because of possible connections with the "Spycatcher" business, over which they have made themselves, in many people's eyes, look increasingly ridiculous. As the FT's legal commentator, Justinian, pointed out last week:

"The secret service officers' duty of confidentiality extends only to total silence about the information they acquired during their service. It does not cover a discussion about the constitutional role of a secret service in a democratic society." And that, so far as one can tell at this stage, is precisely the form that the radio series takes.

However, it is not the content of the programmes which concerns me here, but the implications of these cases so far as broadcasting is concerned. There is, first of all, the matter of the BBC and the way it is seen by its own staff and by the public. The appointment within the last 13 months of Duke Hussey as chairman of the BBC, Michael Checkland as Director-General, and John Birt as his deputy in charge of news and current affairs, has been widely interpreted as a series of moves which, if not engineered by the Government, has the Government's approval.

These were the men, it was said, who would sort out the awkward squad at the BBC, drag out the reds from under the beds, put the cry-baby liberals in their places, and re-impose the firm smack of authority.

The Zircon affair did not distort this picture because that series had been initiated under the old regime, leaving the new men to hold the baby. But the new row over *My Country: Right Or Wrong* is entirely different. Not only was this series produced under the new regime, it was initiated by John Birt himself, and everything known about it suggests the personal imprimatur of the man who co-wrote "The Bias Against Understanding" in the nineteen seventies: long on abstract analysis, short on entertaining anecdotes, deeply resposible and deadly serious.

Prior to the Government's application for a gagging writ on those programmes the new Birt broom had been causing considerable hostility in such BBC offices as Lime Grove, Television Centre, and Pebble Mill where there had formerly been a multi-disciplinary approach to journalism and no rules against flying by the seat of your pants, provided the results were good.

Now Birt insists that all programmes be scrupulously schemed out and a precis sent to him or his deputy before a single interview is recorded. Debate over that will no doubt continue but those who oppose the Birt approach can hardly go on linking their resentment to the accusation that he is some sort of Government stooge now that his own initiative has run into such Government hostility.

Thus, this latest Government attempt to maintain secrecy may well have the effect of reintroducing unity of purpose to an organisation whose factions were looking anything but unified. It has, already, injected considerable esprit de corps into the radio staff who seldom feel themselves to represent the cutting edge of the mass media in this age of television.

If we are lucky and the BBC finds itself obliged to fight, then this case may also lead to the beginning of a campaign by broadcasters to win for themselves – and thus for all of us – what is greatly needed in this modern age: modern mass media with the same rights to operate on behalf of the public as are already possessed (though not to as great an extent in the UK as in the USA) by the old mass medium of print.

There seems to be a widespread belief in Britain that "the Press" encompasses broadcasters, yet in various crucial ways that is not so. Newspapermen such as John Wilkes, William Cobbett, and John Walter fought a tremendous battle for the freedom of the Press 200 years ago. Walter, owner of The Times, went to Newgate for refusing to divulge his sources, Wilkes defied Parliament not once but again and again, and dozens of less well known men suffered appalling punishment in the battle for the public right to know. Gilbert Macleod of Glasgow, for example, endured five years transportation.

Many of these men had humble origins: Cobbett was the son of a labourer, Walter the son of a coal merchant and a one time coal merchant himself. Many of them launched into newspapers as a way of opposing government malpractices, and the fight for the freedom of the Press – against stamp tax, ludicrous libel laws, exclusion from Parliament – was won slowly and at the cost of dreadful hardship.

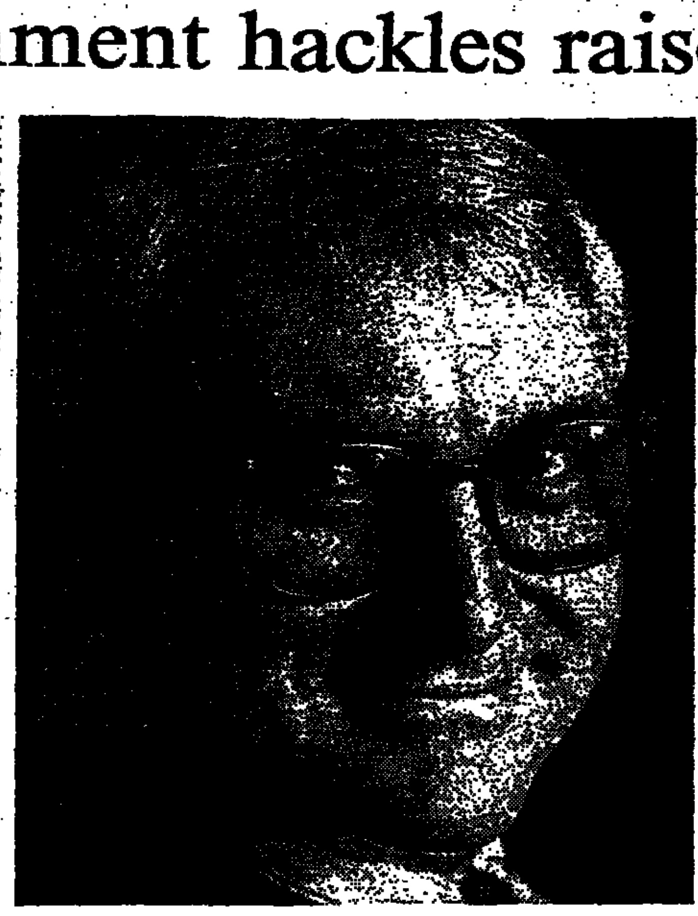
The freedom of television (and, incidentally, radio) has never been fought for and never won. Commercial television can operate only under licence, and the licences are issued by the IBA. The members of the IBA are government appointees. The government also appoints the governors of the BBC and controls the BBC licence fee. When Mrs Thatcher was asked last month about her attitude towards the proposal which MPs are expected to debate again in the new year – the televising of proceedings in the House of Commons – she said "I do not think that televising this House would enhance its reputation:" precisely the argument used to exclude newspapers throughout the 18th century.

Whereas newspapers began as hole-in-the-corner affairs, often little more than pamphlets and scandal sheets whose owners, to be honest, frequently fought for freedom of expression as much for profit as principle, broadcasting has been, from the beginning, a vast, unwieldy and respectable undertaking, usually organised by grandees who identified with the Establishment. Writing of the government in his private diary during the General Strike of 1926, John Reith, the general manager of the BBC, said "They want to be able to say that they did not commandeer us but they know that they can trust us not to be really impartial."

I have known numerous Fleet Street journalists who would go to prison for their principles, but only one person in television on whom I was pretty sure I could rely in the same way: Sir Denis Forman of Granada. Perhaps there are others, but the rich, comfortable ranks of TV barons are not the first places one would look today for champions of free speech.

Having said that, anybody in the Government who felt comforted by the hostility towards John Birt among some BBC journalists should dig out a speech he made in 1979 in Edinburgh. Arguing powerfully for greater plurality in broadcasting, he said that all significant voices should have a chance to be heard, and a "significant" voice was "any voice which has persuaded, or is likely to persuade, others in numbers large enough to have personal, social, or political effect." This would mean, he said, not only programmes for black people but programmes for committed racists.

I have a feeling that Birt really does believe in free speech, and that one day this may prove highly embarrassing to those who are convinced he is merely "one of us."



John Birt: champion of free speech?

Ian McKellen Acting Shakespeare/Playhouse

Michael Coveney

Well, it's better than *Girlfriends*. Ian McKellen takes proper possession of this lovely theatre on the Embankment, following that musical failure with a few secrets of his success in acting Shakespeare.

McKellen has peddled this one man show for a decade in Europe and America. He breaks a self-imposed rule not to perform it on home ground in order to raise funds for an excellent cause, the first hospice and support centre in Britain for people affected by AIDS. The entire proceeds of this four-week season will be donated to the London Lighthouse, due to open next May.

He takes to a bare stage, furnished with a single chair and, mercifully, no lectern or glass of water, in a shiny, baggy-smart designer suit. He launches into "All the world's a stage," but all resemblance to Gielgud's *Ages of Man* solo turn is knocked on the head in a casual shrug of why he's never been in *As You*. "Never really fancied it." When faced with Hamlet, he asked the Cambridge don, George Rylands, what he should do with *that* soliloquy. "Cut it" was the crisp response.

This is not a recital, but an animated one-way conversation in which the actor struggles to understand Shakespeare's genius by performing his work and throwing around nuggets of lore and practice, the odd biographical detail. The work itself is at the core, as when he sits on the edge of the stage, as though he were Danny Kaye at the Palladium, and takes us through the images of time and pulsating rhythms of Macbeth's "Tomorrow" speech.

He then wraps that up in a riveting distillation of the entire play, rekindling memories of his RSC intimate triumph with Judi Dench, but carving afresh a moving statue of jumping, retching,

Ian McKellen

Scottish National Orchestra/Barbican Hall

Max Loppert

The fickleness and timidity of London concert audiences are a special trial for visiting orchestras from the regions, who – with the shining exception of Simon Rattle's City of Birmingham Symphony – daren't bring to the metropolis the more adventurous fare they are able to offer at home, and who then quite often fail to draw the crowds with their safe, popular offerings. Monday's Barbican concert by the Scottish National Orchestra under its principal guest conductor, Matthias Bamert, was a case in point: mainstream works, half-full hall, and a feeling that much of the evening would have been livelier if the programme had been less

Royal Philharmonic/Festival Hall

Andrew Clements

Vaughan Williams was one of the specialities of Andre Previn's years with the London Symphony Orchestra; with that orchestra he recorded a cycle of the symphonies and sundry other pieces. Clearly it was no passing interest, for Vaughan Williams was the focus of Previn's concert on Monday with the Royal Philharmonic Orchestra at

The Royal Opera takes a bullish view

The Royal Opera House, Covent Garden, is taking a bullish view of its prospects in its annual report on 1986-87 published yesterday.

Saleroom/Antony Thorncroft

Banking on reputations

Arts Guide

December 11-17

FINANCIAL TIMES

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A tax that lacks support

NO AMOUNT of bluster from Mr Nicholas Ridley, the UK Environment Secretary, can obscure the fact that the proposed community charge or poll tax is highly unpopular even within the Conservative Party. Between 25 and 50 Tory backbench MPs may rebel tomorrow night at the end of the bill's second Commons reading. A revolt on this scale will not, regrettably, derail the bill but it will lay down an important marker for the real battle, which will be joined next year when the legislation reaches the House of Lords.

At the heart of the Government's case for the poll tax is the argument that it is needed in order to increase the accountability of local authorities. Some councils have differed with Whitehall in their assessment of local spending needs, and ministers have been unhappy that the ensuing bills have not been spread equally among members of the local communities. In particular, the poorer residents have been able to vote for extra spending without the fear of a corresponding rise in taxation.

This fundamental argument prompts various responses. The first is that there is nothing wrong in different local communities having different spending priorities and every reason to suspect that a minister sitting in Whitehall will not be the best judge of local needs throughout the country. Central government ought not to want to impose its views on each sub-sector of the country. Having said that, it is reasonable to expect high-spending local authorities to finance locally a high proportion of their additional expenditure.

Local democracy

This, however, is in no sense an argument for a poll tax. At the national level, nobody argues that government is unaccountable because its expenditure is financed by a range of taxes all of which are related to people's ability to pay. Nobody suggests that spending priorities are distorted because the unemployed and those on supplementary benefit can vote for higher central government expenditure even though they are in no position to finance it. What is so special about local democracy that makes it invalid unless backed by a flat rate levy universally condemned by fiscal experts?

If the Government's interest in local democracy were genuine it would not be seeking to impose a poll tax. It would instead be striving to ensure that a much larger proportion of local spending is locally financed, and in a fair and efficient manner. Yet on present plans, the proportion of spending financed locally will decline from 44 per cent to 25 per cent - largely because the community charge will be accompanied by a centrally-administered uniform business rate. Local government is thus being made accountable to Whitehall, not local electorates.

Poverty trap

The poll tax, therefore, does not address the real issue of accountability. At the same time its flaws are manifest. The concept of levying a local tax at the same rate on road-sweepers and millionaires is offensive to many: 60 per cent even of Tory voters oppose the community charge. Rebel Tory MPs such as Sir Philip Goodhart point out that it will redistribute cash away from the poorest constituency wards and also transfer resources from inner cities to the rich shires.

Rebates for the very poor will not remove the inequity but they will worsen the poverty trap and enmesh new sections of the electorate in the social security system. Central government will be doling out cash to meet bills that cannot be paid and which would not be demanded but for its enforced lowering of local tax thresholds. The whole exercise will be extremely costly - the community charge may in some areas cost four times as much to collect as the rates. Attempts to keep poll tax registers up-to-date, which will require cross-checking with electoral registers, may well lead to some voluntary disenfranchisement.

The "banding" of the community charge favoured by Tory rebels represents a marginal improvement on Mr Ridley's plans. It would introduce a welcome, if crude, link between charge and ability to pay but it is really no more than tinkering and does not address the underlying problems of local authority finance. A long-run solution awaits acceptance that property-based taxes actually make a lot of sense as an adjunct to taxes on incomes and consumption, being relatively fair, cheap to collect and economically efficient. If local authorities are ever to be more nearly self-financing property-based levies might need to be supplemented by local income taxes but they certainly ought not to be abolished, especially when Britain's housing market is already tax-privileged and inflation-prone.

Opec's loss of credibility

AT THE beginning of this year most of the oil industry was predicting wide if not violent swings in the price of crude, and they were delighted to be proved wrong.

After the Organisation of Petroleum Exporting Countries' long and exhausting meeting in Geneva last December, the market enjoyed an apparent period of stability with crude at about $18 or a little above.

The sudden fall in prices in the last two days to nearer $16 demonstrates that this stability was fragile and in one important respect an illusion. The fact that oil is priced in dollars obscured a decline in the cost of crude oil to most countries other than the US. The price of spot crude in non-dollar terms is 23 per cent below that of the turn of the year. More than half that fall is attributable to the erosion of the dollar's value. The rest represents the sharp loss of confidence in the oil markets at the end of the most recent OPEC meeting in Vienna.

The meeting showed that the agreements of the past year have become strained to near breaking point, with the bitter politics of the Gulf war constantly rumbling in the background.

Immediate benefits

Iraq, which is producing some 2.6m barrels a day and exporting through its new pipeline to the Mediterranean, has steadfastly refused to join the other 12 members in limiting production. Attempts by Saudi Arabia and other "moderate" states to bring Iraq into the agreement by offering it a production quota equal to that of its enemy Iran failed. The Iranian minister went off in a huff at the end of the meeting; and the final agreement to limit the group's output to 15.06m b/d (excluding Iraq) is not generally believed.

Cheating by individual countries, particularly Abu Dhabi, has been so persistent in the past year that it is hard to see why it should stop now, whatever was said at the conference table. The meeting, therefore, did little to change the arithmetic of the world oil markets. Opec, including Iraq, is now producing just under 19m b/d; but demand for Opec crude in the first three months of 1988 is expected to be 2m b/d below that figure.

The oil market is now telling the cartel that if individual members are not prepared to make sacrifices by curbing production, they will all suffer from a fall in the price to substantially less than their $18 per barrel target.

Conference table

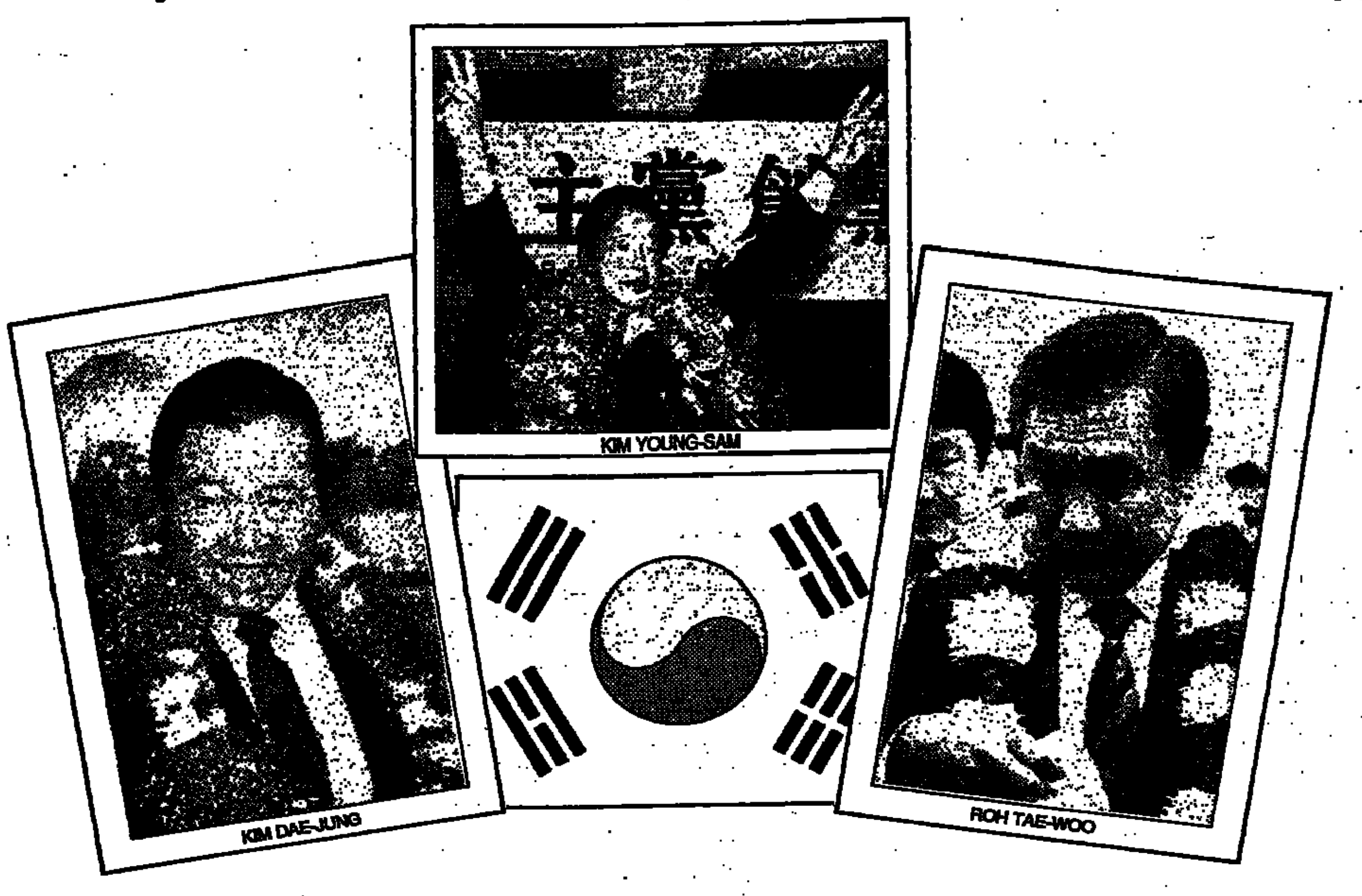
On the other hand, the recent attempts of several major oil companies to buy up their smaller competitors appear to be giving the opposite signal. If the oil companies thought the bottom was about to fall out of the market they would be foolish to be caught on a buying spree for oil assets. They hardly need reminding that if Opec lost control of the market, the price of crude could easily fall below $10 as it did 18 months ago. Indeed, since potential supply of oil is far greater than demand, prices might in theory fall to the marginal cost of production, which is nearer $5 per barrel. Hardly anybody in the oil industry now believes such a collapse is possible, even though many came near to believing it in July 1986. The consequences for Opec members would be so catastrophic that they would be forced back into some sort of accord. Fear of Iran and respect for Saudi Arabia are meanwhile two forces preventing such a collapse.

For the West, some further weakening of oil prices could help economic growth. However, the immediate benefits of lower prices must be set against the need for longer term security. The West must continue to find and develop oil fields to minimise the risk of much higher prices and economic instability some time in the next decade, when North Sea and Alaskan fields are running down. The long-run marginal cost of new oil is about $15 to $20 a barrel which happens to be rather below what Opec would like, but close to what it is likely to deliver.

This is an uncomfortable substitute for market equilibrium, but it is the only one available.

Maggie Ford on today's South Korean elections, intended to end 40 years of authoritarian rule

On the brink of democracy



KIM DAE-JUNG

KIM YOUNG-SAM

ROH TAE-WOO

DEMOCRACY, say the people of South Korea, is compelling. For months they have been revelling in campaign rallies and watching rival politicians vie to reveal facts never previously known. They have been exploiting to the full the freedom to express their opinions openly for the first time in many years.

Today - election day - the carnival is over and votes are what count. No matter who wins, the future will be no picnic. The three main candidates have fought for election to the presidency of a country that has been ruled by authoritarian governments since independence in 1948. Election campaigns leading to a civilian democracy are one thing; the tricky business of enacting that democracy after the elections will be quite another. Inevitably, there will be many frustrated supporters and aspirations on the losing side; the behaviour of a few key military leaders behind the scenes - or in front - will be crucial in a country where military intervention has never commanded the broad support of the army but has depended on a few vitally placed generals.

South Koreans have as much to lose as they have to gain today if the enthusiasm for free elections cannot be translated into patience and tolerance of the inevitable imperfections of democracy.

One of the principal candidates is the heir to the current regime of President Chun Doo Hwan, who took power in a military coup in 1979. The other two main contenders have been fighting, at great personal risk, for democracy against Mr Chun and his predecessor all their political lives. Today's election could be a close call between all three, making the size of support for minor candidates more than usually interesting.

The candidates are united in their determination to end military rule. This is the key issue which underpinned the mass demonstrations in June whose pressure ultimately led the Government to capitulate over direct elections.

All the candidates, including Mr Roh Tae Woo, the former general who stands for the ruling party, claim that they are the best qualified to unpick the web of military rule. As a military man, Mr Roh says he knows how to get the military to go along with democratic change, change that he himself put into motion earlier in the year.

But Mr Roh's credentials in this area have been severely dented by revelations during the campaign of the events of December 12 1979 when he helped President Chun take power. Because of press censorship, South Koreans had not previously been sure that a military coup had actually taken place, nor of the role of Mr Roh.

Now that they know that a coup did take place in which Mr Roh played a principal role, he appears to have lost support, especially to Mr Kim Young Sam. Mr Kim made the issue of military rule his main campaign theme, poignantly underlined when a senior general jailed and mistreated by the Chun forces pledged support for his candidacy.

Mr Kim Dae Jung, the third candidate, has even stronger reasons than most South Koreans to want an end to military rule. Repeatedly jailed, exiled and narrowly escaping execution during his fight for democracy and human rights, he also represents the people who have suffered most from the present Government.

The imposition of martial law by the regime in 1980 led to the deaths of at least 200, and perhaps 1000 people in the city of Kwangju in south western Cholla province, Mr Kim's home area. The full facts remain unknown, but the bitterness over the incident and over general discrimination against Cholla people runs deep. Mr Kim's supporters are the most fervently anti-government and the most strongly loyal of all.

The second major issue relates to stability and economic progress. There is no point, voters believe, in risking disruption and violence which could destroy the economic growth already achieved and threaten the future. Older people, who remember the chaos of the Korean war in the 1950s, rural villagers, small shopkeepers, the business elite and others reasonably happy with the status quo seem likely to favour Mr Roh on the stability issue.

The candidates are united in their determination to end military rule

Balanced against this, however, is the strong desire for change held across classes and regions. Many voters appear to want a much more equal society, with fair treatment for workers, a reduction in business authoritarianism towards middle management as well as labour, an end to corruption and more balanced economic development.

The calculation about stability has been complicated by the emergence of what is called the "twin veto" theory which foresees military intervention whatever the outcome. According to the theory, Mr Roh is the worst candidate, because his victory would induce massive demonstrations by workers and students, perhaps resulting in another military crackdown.

Mr Kim Dae Jung would also be a bad choice under this theory because elements of the military could move against him, fearing the revenge his supporters might exact for the Kwangju episode. Mr Kim Young Sam, regarded by many as the "safe" candidate in this area, has also attracted some fears of a military veto problem since the former general joined his party.

The third issue on which voters have focused is the desire for a truly free society, where human rights are respected, freedom of the press, speech and assembly is the norm and all elements of authoritarianism are removed. A thirst has grown in the much more free atmosphere since June for truthful information.

The two Kims can be expected to benefit from this desire for full democracy, not least because Mr Roh has failed to deliver on his June pledges to introduce a free press and release political prisoners, who now number more than before the amnesty which followed the June promises. Hundreds of students and other political activists have routinely been jailed during the Chun regime, some of them tortured.

Voters today must calculate whether the same situation would not take place again if Mr Roh was elected president. He has promised some kind of vote of confidence, though in what form is not clear, after next September's Seoul Olympic Games in an effort to persuade voters to give him time.

A crucial question is what happens after the election. Will the result be universally and peacefully accepted? In a country where 60 per cent of the electorate is too young to remember the last democratic presidential poll in 1971 (narrowly lost by Mr Kim Dae Jung to President Park, predecessor of the current leader), the campaign fully lived up to their expectations that politics should be exciting.

But it was also marred by accusations of unfairness, by some violence and by regional rivalry. While millions enthusiastically attended rallies for the two Kims, millions of others were also let off work to engage in politics, in mass "mobilisations" of supporters, especially for Mr Roh. A great time was had by most, except in the cases where regional rivalry reared its head.

Flying bottles, eggs, tear gas canisters and minor punch-ups afflicted all the candidates to some degree, with Mr Roh taking most of the flak. Several rallies were called off, notably in Cholla province, where feelings against opponents of Mr Kim Dae Jung run very high. Mr Kim himself suffered problems while campaigning in opponents' home towns. Considering the numbers involved and the passions aroused, however, not to mention the alcohol consumed, the violence was relatively minor.

Perhaps the most serious problems relating to the fairness of the campaign was the bias in television coverage in favour of Mr Roh, the involvement of public officials and the distribution of gifts and bribes. All opposition candidates, complained bitterly about the ruling party's advantage in these areas. Those votes that the ruling party can gain through such practices will probably come from rural areas and among the less well educated. Urban workers and middle class voters were thought to be unlikely to allow their choice to be affected.

Flying bottles, eggs and tear gas afflicted all the candidates

Balloting itself has in the past generally been fair and indeed professionally organised in South Korea. Television coverage of the constitutional referendum in October was similar to that of a British election, and voters themselves do not expect ballot stuffing or voting box theft. All parties are allowed observers in the counting rooms, and voters themselves will watch for any irregularities. A number of foreign observers have also arrived in Seoul to inspect the voting unofficially.

One major potential problem already exists, however. Of the total 850,000 absentee votes which have been cast, more than 500,000 are those of soldiers on military bases. These votes are already widely regarded as having been cast under supervision for Mr Roh, as has been the case in previous elections. Should he win with a margin of less than about 1m votes, cries of foul are certain and will probably win popular support.

The attitude of South Korean's 10m Christians, especially the Catholics, could also be important. Long a strong supporter of human rights and justice, both the Protestant National Council of Churches and the Catholic Church refrained from advising voters on the candidates. Cardinal Stephen Kim reportedly told Mr Kim Dae Jung, also a Catholic, that he too is in favour of a broad based democratic government. At the weekend, long queues formed at Seoul's main cathedral as people waited to watch a previously unseen film of the 1980 events at Kwangju. Churchgoers were said to be horrified by what they saw.

South Korea's students are also an influential element. They appear to be divided between the two Kims, with Kim Dae Jung commanding a majority of them. Their ability to persuade their families to vote the same way as themselves will be just as important as their individual votes.

While the domestic issues have dominated the campaign, the result of the election could also have implications for progress towards peace on the peninsula. A successful transition to democracy might bring with it the possibility of a thaw in the cold war between South and North Korea. This makes the outcome of particular interest to the US Government, which has 40,000 troops and a number of bases in the country.

US administration officials in Washington regard their influence during the summer in encouraging the Seoul government to move towards democracy as an important foreign policy success. However, US officials have maintained a low profile during the election itself, stating simply that they welcome democracy and find all candidates acceptable. They have been asked by the opposition candidates to use whatever influence they may have in the event of any military intervention, but neither Kim has taken up an invitation to visit Washington following a trip by Mr Roh two months ago.

American officials have urged the military to stay out of politics and urged South Koreans to accept the result of a fair election. Should Mr Roh lose, they may have a role to play in guaranteeing the safety of President Chun after he steps down from power next February.

In the final hours before they go to the voting booth, South Koreans are pondering the best way to assure real democracy, stability, national reconciliation and peace - pre-conditions, they believe, for the country to present itself honestly on the Olympic stage next year as a modern nation.

Which ever candidate wins, the voters are determined to make sure that this year's move towards democracy continues. The decision on who is the best person to direct the future will partly depend on their feeling about the pace of change. It is a decision fraught with danger but full of hope.

Men and Matters

King's move in Belgium

As King Baudouin yesterday pondered the results of Belgium's inconclusive general election, speculation mounted as to who might be the country's next prime minister.

The monarch, unusually, finds himself at the pivotal position of Belgian affairs.

With the famous linguistic divisions complicating an already broad range of different political groupings, observers agree that it could be weeks or even months before a new government emerges.

But the man most likely to be given first crack at forming a coalition is Guy Spitaels, a solemn sociology professor, aged 56, and former vice premier. He is president of the French-speaking socialist party (the PS).

It was Spitaels' PS that made the biggest gains in Sunday's poll, largely as a result of championing the cause of Jose Happart, the belligerent Francophone mayor, who refuses to take a test in his official local language Flemish.

But ironically, Spitaels' own linguistic shortcomings could rule him out for the top job since as a monoglot French speaker he could well prove unacceptable in a country whose prime minister traditionally has been able to master both tongues.

Spitaels' opposite number in the Flemish-speaking socialist party (the SP) is Karel van Miert, a relaxed 45-year-old whose friendly informality has been compared to Britain's Labour Party leader Neil Kinnock.

Like Kinnock, however, he has never held ministerial office, and were a candidate to emerge from the SP it would almost certainly be the former economics minister Willy Claes, appropriately an accomplished amateur musician and conductor.

In spite of the strong shift to the left in Wallonia, however, the socialists are at this stage far from certain of getting back into the Government after six years in the political wilderness.

There are many who believe that Wilfried Martens, prime minister for most of the period, since 1979, is simply biding his time.

Bailey's scoop

Occasionally young media people may have a brilliant idea for a television documentary, and go on from there to win the glittering statuettes and rose bowls.

Tyro director Catherine Bailey is the first apprentice television executive I have heard of, however, who has been lucky enough to have a great story thrust upon her when making her first film.

Her debut as a director of a Channel Four production, planned last summer, was to be about the carefree lives of Eurobond dealers in the heady days of the bull market.

After six weeks researching background at Credit Suisse First Boston in September and early October, she arranged for her crew to arrive for the first day of filming at 7am on Monday October 19. Two hours later, the markets started to go into free fall and the subject of the documentary changed in front of her eyes from cheery yuppies to the end of the world as many punters knew it.

The resulting 40-minute film, The Money Slaves, shot that day and the rest of the week, is to be shown next Sunday. It records the reactions of traders trying hurriedly to adjust to a revolution in their working lives, and follows the mixed fortunes of two rights issues during the week.

The film crew - confronted by an unexpected scoop - had its problems as well. "I was probably panicking more than they were," admits Bailey, whose directorial debut turned out to be a more demanding task than even she had expected.

Vestments extra

Yesterday's Frankfurter Allgemeine Zeitung, the heavyweight West German daily newspaper, enlivened its pages with a timely reminder of some of the country's present concerns.

While the politicians in Bonn are still squabbling about barring masked demonstrators from taking to the streets, and their colleagues in Hamburg are patting themselves on the back for finally bringing to an end a six-year squat, the paper reproduced a fly-sheet which it said had appeared recently on the streets of Frankfurt and Berlin.

"Rent a Demo" may be nothing new to afficionados of Britain's satirical sheets. But the spoof version depicted in the Allgemeine offers some special Teutonic touches.

The original squatter - with a suitably green eco-bicycle - comes as a five-minute mini-demo for the price conscious.

Better, perhaps, is the next step up, the standard version which offers 30 minutes worth of 30 demonstrators, "some masked", plus cheerleader.

But for those with the most refined tastes in politicised West Germany, where even clerics take to the streets to make their feelings known, there is the "super gala" version.

For the right price anyone can rent 100 demonstrators for 90 minutes, including 15 punks, three little children, and three evangelical preachers (10 per cent surcharge if they come in vestments). A Central American freedom fighter is thrown in free.

Hot-headed capitalists interested in renting a crowd to lobby Bonn in these testing economic times for Germany should act quickly. The special offer of one free preacher per demo is open for a limited period only.

Field politics

At last something is being done about the scandal of the disappearing hedgerows which, within the last few years, has turned parts of rural Britain into prairie.

Since 1947, 109,000 miles of hedgerows, a quarter of the total mileage, in the UK have been destroyed. Lately they have been going at an astounding 4,000 miles a year.

Christopher Hall, chairman of the Ramblers Association, yesterday launched a campaign at Westminster to save Britain's rapidly disappearing hedgerows, pointing out that there was nothing to stop a farmer destroying a hedgerow, however ancient.

Controls are urgently needed to stop their destruction, he argues.

Dr David Clark, shadow Agriculture Minister, says that Labour would try to amend current legislation to regulate grubbing up hedgerows. If unsuccessful, Labour would introduce its own bill, he promises.

He is inclined to make European farm policy the ultimate villain responsible for assaults upon hedges. "The people of Britain have paid very dearly for the common market's farm policy, both in financial and environmental terms. The cost to the average household in the UK is a staggering £11.50 a week. But even that cost pales into insignificance compared with the environmental cost. In the eastern part of the country we are creating monocultural deserts, landscapes without hedges more reminiscent of the Wild West of the United States than Constable country."

Unforgettable

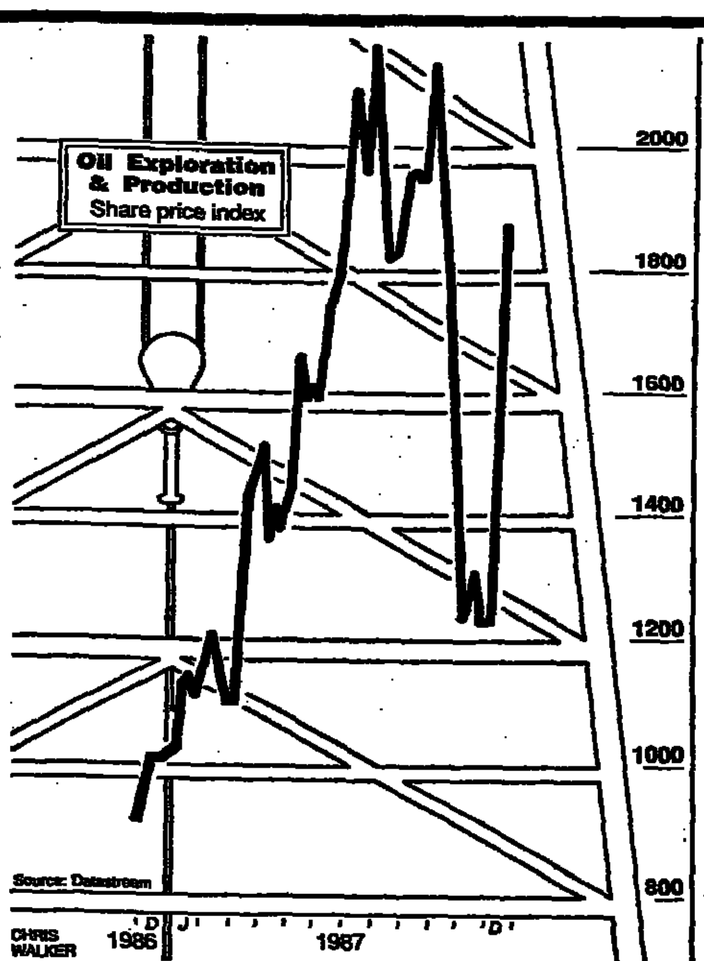
An American woman was overheard in London's Tate gallery.

"I'm sure we were here when we were in London last year Waldo - I remember the women's toilets".

Observer

Lucy Kellaway reports on the predatory wave facing independent UK oil companies

Struggling to evade the giants' grasp



THE BRITISH independent oil sector is for sale. Big oil companies all over the world are urgently debating whether to join the bidding for half a dozen modest UK companies, each of which is sitting on a small pile of valuable oil assets. The North Sea clean up, expected for the last two years, appears to be happening at last.

British Petroleum set the ball rolling last week when it bought 15 per cent of Britoil. Suddenly, the share prices of the other independents leapt by as much as 40 per cent as the City set against a long list of wealthy potential buyers the short list of available targets.

Less than 48 hours later, Elf Aquitaine bid for Tricentrol, while a second mystery buyer joined the battle for Britoil. Names as different as British Gas, Conoco, Amoco, Exxon, Agip, Deminex, Phillips, Chevron, Petrofina, Total, Mobil, Occidental Petroleum and Rio Tinto-Zinc were said to be behind the new buyer's false beard and sunglasses – although when the disguise was removed, nobody seemed particularly surprised to see Atlantic Richfield.

The lengthy list of imagined predators reflected more than City vagueness about what was happening. While many of these companies may never have considered such a move, the acquisition of a UK oil independent would make good sense for nearly all of them. Most face the disheartening prospect of falling oil production over the next decade and are anxious to increase their presence in the North Sea, where the chances of making a discovery are still good and the economics attractive. With most of the best licences handed out years ago, buying up existing companies is one of the few ways to expand quickly.

While the logic is clear, the timing appears odd. Most of the independents could have been acquired at a fraction of today's prices last year, when the fall in the oil price put their survival in doubt. Perhaps the majors, which were then too preoccupied with their own problems to hunt for bargains, are determined not to be caught out again.

Last week BP snatched at the opportunity provided by a depressed stock market, boldly ignoring the signs of disarray at the Organisation of Petroleum Exporting Countries' (Opec) meeting in Vienna, and the falling dollar. Two weeks ago, a $1.5 fall in the oil price to $16.5 – as has happened in the past two days – would have sent the independents' share prices crashing down too. This week the market has appeared so confident of further bids that the share prices have moved comparatively little.

While BP, Elf and Arco might have been wiser to wait at least until this week, they would argue that the oil price makes little difference – they are buying with a view to its level in the 1990s, when the oil from undeveloped fields is flowing.

It is this gap between the long-term view of the oil companies and the myopia of the market that has brought the independents into play. According to Mr Julian West, of Enterprise Oil, the market has again shown itself incapable of valuing oil companies by stubbornly pricing long-term assets on the basis of short-term oil prices.

However, investors' so-called short-termism need not prove fatal for the independents. They have one strong card to play. Most of them have at least one shareholder with its eyes fixed on the next decade rather than the Topic screen. ICI has a major stake in Enterprise, Burmah Oil in Premier Consolidated, Carless Capel & Leonard is protected by London Merchant Securities, Goal by Norwich Union, while Clyde has several largish long-term shareholders. London and Scottish Marine Oil is perhaps the most vulnerable, as its major shareholder, Rio Tinto-Zinc, apparently has acquisitive intentions once it is free to make a full bid at the end of this month.

It is no coincidence that Britoil, where the existence of the Government's golden share had discouraged any shareholder from building a major stake, and Tricentrol, which has little in the way of shareholder support, should have been the most vulnerable to predators.

But none of the independents can feel totally secure. If a big oil company is prepared to pay over the odds to secure the strategic benefit of a larger foothold in the North Sea, it may meet little resistance.

While this is not the first rationalisation that the sector has been through – it has grown up in a continuous whirl of merger, rescue and takeover – it may be the last. Yet the prospect of the independents' disappearance shows little sign of upsetting the Government which, despite its earlier fostering of the sector, appears unprepared to compromise its free market policies to defend it.

But would it matter if there were no more independents?

At least in theory a good case can be made for their continued existence. Their nimble size should mean a healthy diversity of approaches to oil exploration and their enterprise should keep the majors on their toes. Their British nationality should benefit the domestic economy by providing jobs in the supplies industry and retaining earnings in the UK.

At first sight the record has been disappointing. With the exception of the Miller field – which was discovered by Saxon Oil, now a part of Enterprise – the independents have made few discoveries; while Sovereign Oil and Gas's tiny Emerald field is the only obvious example of a North Sea development which would have been overlooked by a larger company.

However, the real worth of the independents is difficult to assess. While in the US and even onshore France one can point to major fields found by independents, in the UK the higher costs mean that most small companies are mere partners in large groups.

The independents themselves argue that their urgent need to grow has meant that they have pushed their partners into developing fields early, while their cost consciousness has trimmed the majors' profligate tendencies. Furthermore, their diversity of view has led to licences being swapped, enabling more exploration to take place.

Others treat such claims with scepticism. Mr Brian McBeth, of Schroder Securities, argues that if all the independents were swept away, the UK would not be much the poorer. "Many of these companies have not performed all that well," he says. "They are still tiny and have not progressed from being mainly financial vehicles with one geologist and one economist."

Mr David Montague-Smith, an oil consultant, says that the independents are "chasing the wrong horse". Instead of starting out with new technology and a long-term view of the industry, he says they have been created by financial institutions with a view to raising capital for the North Sea. "To put it at it simplest, the independents are little more than a futures market."

They were born with the blessing of the Government and have grown in response to its changing policies. The seventh round of licensing, for example, was so pro-independent it encouraged every British icecream vendor and hotel company to join foreign oil operators to increase their chances of winning acreage. While most of these "oil companies" have been absorbed into bigger groups, the shape of the larger remaining ones has been designed by the fiscal regime. When the oil tax policy was changed in 1983, the independents bought slices of the Forties field when the Government announced that exploration costs could be offset against Petroleum Revenue Tax.

Those which have prospered have been adept at doing deals – a skill which helped them through last year. The smaller companies have been taken over by larger ones as the risks of operating in the North Sea have increased – and the process might have gone further had it not been for the fiercely independent personalities of the remaining groupings. They have also been good at buying oil assets. The purchase by five of them of stakes in the Wytch Farm field in Dorset – which turns out to be bigger every time it is probed with a drill bit – was a wise investment and much coveted by potential predators.

What could these companies offer in return for their independence? While each has shown that it can survive a brief period of low oil prices, their strategies for long-term growth are not established. Most have seen that the future will be away from the North Sea, but their efforts to diversify have not been altogether encouraging. Early moves in the US were mainly unsuccessful – both Britoil and Tricentrol have withdrawn at a cost of more than £50m apiece.

A second, broader international effort appears more promising. Both Lasmo and Premier Consolidated have made exciting discoveries in the Far East, Enterprise is scanning virgin territory in the Seychelles, while Britoil is branching out in a small way in Egypt, Ecuador and Equatorial Guinea.

These strategies may never be put to the test. Even if the oil independents escape from the majors this time, without rock-steady protectors they must view each bout of oil price and stock market weakness with trepidation.

The West German economy

No time to back away from revitalisation

By Gerhard Fels

RECENT developments in the financial markets have confronted policy makers in the major developed countries with a new reality. While public officials have been preoccupied with inflationary expectations, the stock market crash seems to signal that market participants tend to have deflationary expectations. There is a danger that these forebodings of recession will prove self-justifying, because the confidence of those responsible for real economic activity is undermined by the crash.

West German officials, along with the others, are reconsidering their policy stance. Market pressure has brought about a reassessment of the country's monetary and fiscal policy that political pressure from the US Government was not able to initiate. The economic policy controversy between the US and West Germany reflects two different concepts of supply-side-oriented policy. The US approach has been less concerned with monetary targets and public deficits than the West German.

Over the past five years, economic policy in the Federal Republic has been guided by two major principles: stability and predictability. This was a reaction to the traumatic experience in 1981, when the impression was widespread that policy makers had lost control of the economy: the external value of the D-Mark was falling, the current account recorded large deficits and the state of the public finances deteriorated rapidly. When the Government of Chancellor Helmut Kohl came into power in late 1982, the overriding task was to restore confidence by embarking upon a course of monetary restraint and fiscal consolidation. His objective has been achieved – no small accomplishment in times of world-wide economic instability.

However, the Government's supply-side-oriented drive to revitalise the economy through increased competition never seriously got off the ground. In spite of pledges to bring about a Wende – a fundamental turnaround – it took only small steps towards breaking up the economic structure it had inherited.

Privatisation and deregulation are cases in point. On issues such as Lufthansa or the Bundespost, the coalition took only half-hearted initiatives, and often backed off later in the face of fierce opposition from labour unions or special interest organisations. Subsidies are another example. While the Government originally vowed to cut public assistance to industries like coal, shipbuilding and agriculture, subsidies actually went up by about 25 per cent.

Hence rigid labour laws, high investment taxes, expensive social services and interventionist governments at both the federal and state levels continue to be major impediments to economic growth. Insufficient progress in this area is to blame for much of the recent sluggishness of the West German economy, in sharp contrast to its former dynamism. Growth has been lagging behind the Organisation for Economic Co-operation and Development average during most of the 1980s and the medium-term challenge is to revitalise it.

The short-term task is to stabilise expectations. The financial markets are in a state of high nervousness. They are waiting for actions which signal that policy makers share their concern and are prepared to act accordingly. As is well known, style often matters more than substance in economic policy.

On a more fundamental level, a more expansionary policy in West Germany would provide crucial support for the US. Although the US's external payments deficit is directly related to the country's policy mix of the 1980s, and can only be solved by changing that mix, one has to recognise that the US cannot bear the entire adjustment burden. Policies aimed at lowering the US budget deficit are almost certain to dampen aggregate demand in the US – at a time when negative effects on consumer and investment spending as a result of the stock market developments seem likely to depress the economy anyhow.

The world economy may slip, perhaps for the first time since the 1930s, into a truly Keynesian situation if governments fail to respond in time. Unless West Germany, along with Japan and the rest of Europe, is prepared to act, it may soon find itself confronted with even more unfavourable circumstances. In the absence of co-operation from the rest of the world, the US must be expected to employ protectionist measures and to drive down the dollar even further.

Monetary policy over the past two years has been by no means restrictive, as central bank money growth has been exceeding its target by considerable margins. Still, there seems to be some scope for further relaxation. One reason is that at near-zero inflation and long-term nominal interest rates in the 6 per cent range, real interest rates are quite high by historical standards. Lower interest rates in West Germany, at the same time, would help to widen the interest differential vis-a-vis the US, which is necessary to finance the latter's trade deficit by private capital flows (rather than by foreign central bank credit, as has largely been the case this year).

Fiscal policy can make a contribution as well. In addition to tax cuts amounting to DM14bn ($4.7bn) in 1988, which have already been passed, the Federal Government has proposed a package of further tax reductions totalling about DM20bn, scheduled to take effect in 1990. But, in the present circumstances, this second package should be put into effect as soon as possible.

In the event of a sudden and dramatic deterioration of the world economy, officials may alternatively resort to the provisions of the German Economic Stability and Growth Act of 1967. This stipulates, among other things, that personal and corporate income taxes can be reduced across the board by up to 10 per cent (for a maximum duration of one year). A big advantage of these measures is that they can be enacted virtually overnight; they need no advance approval by parliament.

Critics argue, of course, that monetary and fiscal expansion could jeopardise the economic policy achievements of the early 1980s. However, this danger would seem to be quite remote at the moment – the situation today is totally different from that period. In the light of the present problems in the world economy, the markets would most certainly accept a temporary departure from the policy stance of the past years. They may indeed be waiting for it.

The author is president of the Institut der Deutschen Wirtschaft, a research organisation supported by German industry.

Letters to the Editor

Columbia disfigured

From Mr Nelson F. Rimensnyder, US House of Representatives' Committee on the District of Columbia.

Sir, Cheers to the Prince of Wales for putting the stick to those responsible for deficient planning and mediocre architectural design in the UK and particularly in London ("Prince Charles attacks City developers," December 2).

As a former member of the National Capital Planning Commission (NCPC - the planning and design review body for Washington), I have long wished someone at the highest levels of our civic hierarchy would speak up about the intrusive disfigurement of the skyline of the capital of the US. The Prince's observation about the need for "experts to come down out of their ivory towers and listen to the lay public" is pertinent to Washington and other capitals as well.

In 1983, Washington's citizens attempted to assume direct participation in a singularly important design issue involving a large block overlooking the White House, in the oldest precinct of the city's civic centre. In an overwhelming biracial vote (Washington's constituency is 70 per cent black) citizens enacted the Rhodes Tavern Preservation Initiative law. This act provided for a citizens' commission of laymen and experts to consult with Oliver Carr, the capital's most prominent developer, and his architect, David Childs, a former NCPC chairman, to seek a design solution for preserving the historic Rhodes Tavern (c.1799), Washington's first town hall and oldest extant commercial landmark.

Citizens had one design solution already in hand, which provided for new construction to take place around the Tavern with no loss of rentable floor space. Also, individuals and interested organisations with proven fund-raising records were on board to provide design and restoration financing.

All this popular action was aggressively opposed on all fronts by an ego-driven, paranoid, petty fraternity of planners, architects and developers. This gang was appalled at a precedent demonstrating that citizens cared enough about their history and environment to demand admittance to a heretofore clubby, closed, design and development decision-making and review process.

Within a year, the considerable political leverage of developers and their cohorts prevailed to crush this "dangerous" citizens' movement. Rhodes Tavern, the only remaining building in Washington passed by every presidential inaugural parade, was demolished by authority of the nearly total acquiescence of Washington's elected and appointed establishment.

Nelson F. Rimensnyder,
Committee on the District of Columbia,
US House of Representatives,
Room 1310, Longworth House Office Building,
Washington DC

The Prince may have the wrong man

From Mr James Bartlett.

Sir, Prince Charles's observations on buildings have been primarily levelled against the architect or town planner. It seems to me, though, that either way he has the wrong man.

In the entire postwar period, particularly the late 1960s, Britain evolved the severest planning codes in Western Europe. As a result there were relatively few examples where architects had a free hand, as final design approvals were made by the relevant planning authority. However, these planners have only been interpreting the statutory planning policies; the failure must have more to do with the logic of the legislation in the first place.

North America generally has very liberal planning codes. The resultant competition has meant that it also has some of the best architects and most outstanding architectural designs. Offices, in particular, offer far better working conditions, and lower rents, and their designs are appreciated by a much larger section of the community than in the UK. This is not to say that glass-clad skyscrapers, for example, are preferable; they merely reflect the inherent taste in that country.

But it does illustrate that when the architect is "liberated" he inevitably produces a better product, rather than a compromise design - often to placate subjective judgements rather than the concerns of occupiers themselves.

James Bartlett,
Bartlett & Co, Chartered Surveyors,
16 Davies Street, W1

More bankruptcies would follow

From the Shadow Minister for Agriculture.

Sir, I was surprised to see in your leader (December 7) the suggestion that the only rational way to deal with chronic surpluses of agricultural products is to reduce prices substantially and quickly.

Such an approach would be sheer folly. Already it is being suggested that one in 10 farmers in the UK could go bankrupt. To rely on price reductions alone to reduce surpluses would greatly increase these bankruptcies, with the resulting deteriorating quality of our countryside and the accompanying unemployment.

The rational answer to surpluses is a multiple approach of price reduction, quotas, extensification (lower input, environmentally sensitive farming, etc.) and some direct income support in the Less Favoured Areas.

Only by such an approach can the surpluses be reduced while the countryside and rural population remain protected.

David Clark,
House of Commons, SW1

Unsolicited loans to young people

From the Vice President, Institute of Credit Management.

Sir, Mr Brian Mills suggests in his letter (December 8) that there should be an investigation into unsolicited attempts by banks to get young people to borrow money beyond their means.

While I deplore any attempt to persuade young people to overcommit themselves, it seems likely that the example mentioned by Mr Mills is a clear breach of the law under Section 50 of the Consumer Credit Act 1974, which states that it is a criminal offence to send to a minor any document inviting him or her to borrow money.

While it is a defence to show that the prospective lender did not know and indeed had no cause to suspect that the person being approached was a minor, this defence would surely be unlikely to succeed in the case of a joint stock bank approaching one of its own customers to offer a loan, if that customer turned out to be a minor.

P.G.L. Mudge,
21 Poulett Gardens,
Twickenham, Middlesex

Chefs should ponder the 11th Meditation of Brillat-Savarin

From Mr Gerald Long

Sir, I greatly enjoyed Paul Betts' article on the export worries of French *haute cuisine*. The idea of copyrighting dishes is full of promise, there is a feast in prospect for the lawyers; to judge the cases will call for a Bridoie or a Cocklecarrot, and they will be a joy to report.

One cannot help wondering, however, what it is they plan to copyright, especially since most of today's fashionable chefs publish their recipes. It would be a disappointment if more than a very few of the 50 wished to protect only the names of dishes; there is one chef who seems more interested in trademarks and franchising than cooking, and whose detractors say, no doubt unfairly, that he spends more time in front of cameras than stoves, but it could be hoped he was an exception.

The chefs should ponder the Eleventh Meditation of Brillat-Savarin, in which he traces the origin of the French food industry to the appetites of the victors of Waterloo and their discovery of French restaurants and French wines. M Moet did not even mind their stealing his champagne: the looters were hooked, and orders poured in from the north when they got home.

Brillat-Savarin records that Madame Sullot, whose shop at the Palais Royal was less than twelve feet square, sold up to 1200 small pates a day in 1815. Quality was and is the key: the Sullot pates are commended in six of the eight years of Grimod de la Reynière's Almanach des Gourmands between 1804 and 1812.

Hungry invaders today find the prices of some restaurants, admittedly a tiny minority, more forbidding than the Old Guard itself. One of the main causes is the deadly combination of social security charges and the lunatic fringes of *nouvelle cuisine*, which is as labour-intensive as its Japanese model.

Happily the vast majority of restaurants are content to put food on the plate rather than sculptures: they offer excellent value and suffer from no shortage of ingredients.

If true French *cuisine* can be exported at all, which is far from certain, exports will be largely confined to such as Bocuse Tokyo and Maxim's New York unless chefs return to the classical cuisine that Escoffier served for 27 years at the London Ritz, and to true innovation like that of Alexis Soyer. The cooking of both of these was firmly rooted in traditional dishes and methods, often from the provinces.

One small point on the aspirations of researchers as reported by Mr Betts: the *petit-gris* is certainly smaller than the sometimes monstrous so-called Burgundy snail, and it may be new to the menus of elegant Parisian restaurants; it is not, however, a new variety; it is indeed one of the commonest French snails. If it comes from arid areas of the south where it must live on herbs, it has flavour, unlike the Burgundian, which has none except that of the sauce, especially if it is really Hungarian, Turkish or Chinese.

Gerald Long,
15 Rue d'Aumale,
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France

FINANCIAL TIMES
Wednesday December 16

Terry Dodsworth looks at a UK industrial policy triumph

Japanese sink roots in Britain

ALMOST EVERY sizeable Japanese electronics company has now put down manufacturing roots in the UK.

This was confirmed with the decision this week by the Victor company of Japan (JVC) to set up a television plant in Scotland.

In one sense at least, British Government policy has triumphed because the Japanese interest has underscored the UK's attractiveness to inward investors.

Even before capturing a further £216m ($396m) investment by the Nissan car company, also this week, the UK could claim to be the preferred location for Japanese producers in Europe.

There are now 65 different Japanese operations in the UK, accounting for about 30 per cent of total Japanese investment in Western Europe.

In consumer electronics, however, the UK has not had it all its own way. Indeed, the main impact of the Japanese influx to make products of this kind has been in the televisions sector.

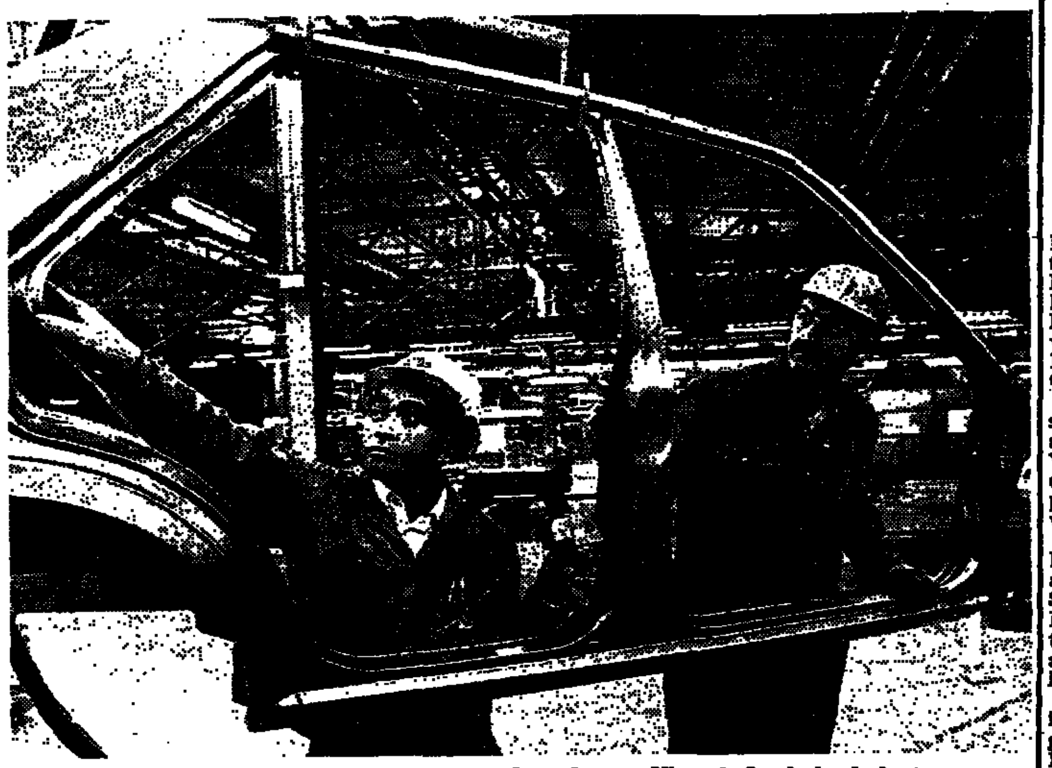
In other kinds of equipment, the Japanese have been investing elsewhere in Europe and supplying the UK from these overseas satellites.

Historically, the Japanese made their initial European investments in the UK, probably for language reasons. These plants were mainly put down for television production, because this was the area in which European trade action against Japanese consumer electronic equipment was concentrated at that time.

Further Japanese television investments clustered around the early ones because of the infrastructure of component manufacturers.

In the videocassette recorder industry, however, the Japanese proved to be by no means as keen on the UK as a manufacturing base. Although eight Japanese companies have VCR sites in Britain, none of them manufactures more than 160,000 units a year.

Instead, the bulk of production was put down in West Germany, which now produces 2.5m VCRs a year, against 1m in the UK. It is a European-sponsored company, J2T, which combined Thorn of the UK with Thomson of France and JVC of Japan, which has come to provide the bulk of UK VCR production, with about 350,000 units last year. Thorn has recently dropped out of this consortium.



A way into Europe: Japanese and British workers at Nissan's Sunderland plant

In audio products, the picture is more mixed. But even here, the Japanese tendency to cluster in a particular country is evident in France, where the bulk of investment has been made.

These investment patterns reflect politics as much as economics. In the first place, the Japanese decisions to put down sites in Europe have clearly been connected with restrictions placed upon direct exports by the Europeans.

In televisions, there was an early licensing restriction on large screen televisions which put physical limits on imports; in VCR's there was the now-celebrated trade row which flowed out of the French action in strangulating Japanese imports by channelling them all through Poitiers; and by the time that potential battles came up on the audio front, the Japanese were moving to head them off anyway.

It has been noticeable that in compact disc player manufacturing - there are now several Japanese sites in Europe - production facilities were put down almost as soon as the industry got on its feet.

Second, the scattering of plants around Europe is widely seen as a deliberate move to head off conflicts over trade policy.

The Japanese are now considerable employers in all of these countries, and have influence to match.

According to Mr Jim Bottoms, of the BIS Mackintosh market research group, the UK's ability to attract Japanese companies has to some degree reduced imports of these various kinds of consumer electronics goods.

In 1982, for example, almost all the VCRs sold in the UK were imports; last year, it was 75 per cent. In television sets, imports have fallen from 41 per cent in 1984 to 36 per cent in 1986.

The UK's weakness in audio products, however, tells against it heavily, with imports running at around 90 per cent of the total £900,000 market.

All in all, the UK trade deficit in consumer electronics was estimated last year at £836m in figures produced by Mullard, the Philips subsidiary in Britain, and the main manufacturer of television tubes.

This showed a slight reduction on the previous year, and suggested that the enormous leap in imports of the early 1980s - the trade deficit stood at £308m in 1980 - might be over.

There are now signs that those Europeans that are left in the industry are beginning to worry more about the South Koreans than the Japanese as potentially damaging competitors - and the Japanese themselves are probably beginning to share that anxiety.

Gorbachev 'offered to withhold aid to Nicaragua'

By Lionel Barber in Washington

PRESIDENT Ronald Reagan yesterday said that the Soviet leader, Mr Mikhail Gorbachev, had offered privately to withhold military aid from the left-wing Sandinista Government in Nicaragua in the interests of the Central American peace plan.

Mr Reagan - answering shouted questions by reporters at a picture-taking session at the White House - said Mr Gorbachev's offer had come at a brief private meeting during last week's Washington summit.

Lt Gen Colin Powell, Mr Reagan's national security adviser, referred to the tentative Soviet offer at the weekend, but President Reagan's remarks were the first time he had spoken about his 11-minute private dialogue with Mr Gorbachev.

This week, the Reagan Administration has mounted a propaganda campaign via a top-level Nicaraguan defector, publicising the Nicaraguan Government's plans for a massive military build-up helped by Soviet aid.

The Nicaraguan defector – who fled to the US seven weeks ago and has been under interrogation – last week told selected US reporters that the Nicaraguan Government was planning to double its armed forces to 600,000 and receive advanced Soviet Mig 21 fighters in a long-term military build up to 1995.

At the weekend, the Nicaraguan Defence Minister largely confirmed the plans outlined by the defector, Major Roger Mirandá Bengoechea, a senior Nicaraguan defence ministry official.

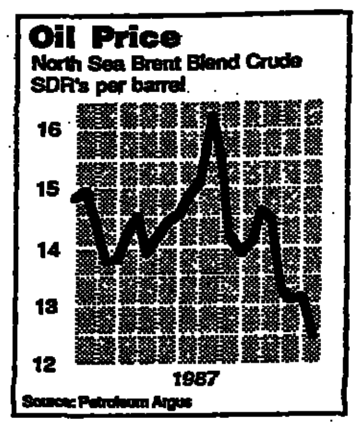
The Reagan Administration is using Major Miranda as a weapon in its campaign for more funds from Congress for the right-wing Nicaraguan rebels. It has therefore suited officials to play up the Sandinistas' military plans and its reliance on Soviet aid.

On the other hand, Mr Reagan has been eager to dramatise the success of his summit meeting with Mr Gorbachev. One way is to suggest he has been flexible on regional conflicts such as Nicaragua. On other issues such as Afghanistan, US officials say Mr Gorbachev had little new to say.

THE LEX COLUMN

Cheap oil good, cheap oil bad

The oil market's reaction to news of the Opec meeting has been in one sense surprising. By yesterday's close Brent crude had fallen to only a shade over $16, down $1.50 over two days; but the outcome of the meeting, after all, was much the kind of fudge which had been expected all along. On the other hand, the market had done little to discount its expectations in advance, since Opec meetings are tricky things to forecast with confidence. In any event, the market is now looking for further weakness in the oil price in the first quarter of next year, particularly since stocks are unusually high.



The behaviour of oil shares yesterday was a little harder to read, particularly given the number of special situations in the sector: more huge purchases of BP new (Kuwait again, presumably), Premier taking a stake in Tricentrol, and everyone squaring up for today's battle over Britoil. There was a logical divergence, though, between smaller exploration stocks like Enterprise, down on the day, and Shell, which managed a rise along with the market on the assumption that any damage caused upstream by a low oil price can be made good in refining and petrochemicals.

The rise in the market overall seems to have been determined more by Wall Street than by oil price considerations, though Wall Street's strength in turn owed much to Opec. But then, the London market has had immense difficulty over the past couple of years in making up its mind whether a falling oil price is a good or bad thing. It would be surprising, though, if sterling's slight weakness were not to continue. Though sterling is not the petrocurrency it was, it still makes more sense to sell it on a low oil price than it does to sell the Yen.

Guinness Peat

Guinness Peat has been promising that the worst is over for as long as most people in the City can remember, so there will have to be a decent interlude before the rest of the financial community can fully believe its protestations that all of itsskeletons have been discovered and laid to rest. Nevertheless, the latest management team has made an impressive start. Yesterday's full year pre-tax profits of £23.1m have been struck after an undisclosed provision of around £9m to clean up the last of the problems in the merchant bank, and a £7m exceptional item to cover surprisingly heavy losses in its equity market-making operations following the stock market crash. The group has also taken the axe to its ill-fated US property venture and after adding in other extraordinary items made an attributable loss of £5.9m and has had to dip in to reserves to pay its £8.1m dividend.

Fortunately, the group still has some surprisingly profitable parts. The US fund management operation chipped in £12.6m, and the combination of some astute hedging against the dollar's decline and guaranteed revenues for the next three years underlines the group's confidence that this income stream is well cushioned against any further problems in the world's financial markets. Meanwhile, the balance sheet damage of the big provisions and the goodwill write-offs associated with its recent US acquisitions have been mitigated by a £44m revaluation of one of its better investments - its 21.4 per cent stake in GPA. This unquoted investment is carried in the books at $200 per share but is probably worth considerably more. The same is true of several other GP investments, which explains why it is relaxed about its relatively high gearing levels. The absence of provisions should help the group earn say £35m in the current year, but if the shares are to trade much higher than their current level of 85p the new management will have to demonstrate that it has fully shaken off its past.

Regional brewers

The day after two regional brewers reported pre-tax profits up 23 per cent and 49 per cent it may seem odd to recall that the regional sector is facing its most difficult trading conditions for 25 years. In the foreground is sliding ale consumption, in the background the MMC examination of the tied house, threatening to contract consumer choice in the name of purer competition. The MMC's provisional judgement that there is indeed a monopoly may be unsurprising, but it draws attention to the smaller brewers' potential vulnerability in the face of the big brands and big discounts – with no fresh consumer groundswell to protect them.

But bad news for some managements and many local ale enthusiasts is good news for shareholders and brokers. Even without a kick from the MMC a restructuring is inevitable. The survivors will find strong niches and then, thanks to the ban on takeovers by big brewers, feed off their failing competitors. Shareholders should win either way given the strong asset backing of even the most burnt-out rival.

J A Devenish with its electrifying 49 per cent pre-tax profit rise is clearly a survivor. Transformed by its new retailing culture it is throwing up new products and reducing seasonality dramatically. With Vaux (23 per cent up) and Greene King (17 per cent up) the story is more mixed. The latter has the brands but - as a margins comparison with Devenish suggests - none of the retailing flair, while Vaux's hotel diversification has saved it from a declining ale-business but possibly at the expense of making it a bid target. The brokers are having some rare fun spotting the winners and losers.

Midland Bank

Midland Bank and the Institute of Chartered Accountants were being extremely polite to each other yesterday, but there is no hiding the fact that Midland's decision to climb down on the accounting treatment of its £916m of Third World debt provisions is yet another sign that the group is living up to its accident-prone image. Midland argues that accounting policies for Third World loans are very murky and it was just unlucky because it was the first to take a decision. The suggestion is that the other clearing banks changed their plans after seeing the furore caused by Midland's action. Canadian banks have also taken their provisions below the line and Midland says that professional investors were never likely to be misled by its decision. It can be argued that the whole affair is a storm in a teacup, but Midland has more than its fair share of eminent accountants on its board, and its failure to be sensitive to the the accountancy profession's feelings reflects an error of judgement.

Midland set for record UK bank loss

BY CLIVE WOLMAN IN LONDON

MIDLAND BANK's financial results for 1987 will show what is expected to be the largest loss ever suffered by a UK commercial bank.

The loss, estimated to reach at least £350m ($640m), will stem from an about-turn, announced yesterday, in the bank's proposed treatment of its provisions for doubtful Third World loans.

In July the bank said it planned to exclude the £916m Third World provisions from its profit and loss account by treating them as an extraordinary item. This led to accusations that Midland was artificially inflating its profits by cosmetic devices.

Midland announced its retreat yesterday - only a few hours before a special three-man panel, set up by the Professional Standards Committee of the Institute of Chartered Accountants in England and Wales, was to due to investigate the issue.

The investigation, set up following a complaint by another accountancy firm, could have led to disciplinary proceedings against Midland and its auditors, Ernst and Whinney, if they had maintained their original position.

Mr Nigel MacDonald, the senior technical partner of Ernst and Whinney, said last night that Midland's audit committee made the decision to include the provisions in the profit and loss account of its own accord.

Ernst and Whinney had not yet decided its own policy for the treatment of the bad debt provisions, he said.

In July, the firm approved both Midland's proposed treatment and the opposite treatment by another of its clients, National Westminster Bank.

Mr MacDonald added that shareholders could not have been misled by either treatment and said the dispute was a storm in a teacup.

"It does not matter a row of beans," he said, while admitting that Midland had deliberated carefully and for several months before agreeing to back down.

Mr Ian Tegner, Midland finance director, said that since July a consensus had emerged in favour of deducting Third World debt provisions from the bank's 1987 profits.

"Consensus is important in ensuring the authority of accounting standards," he said.

The Institute said yesterday that it welcomed Midland's decision to bring its accounting treatment into line and conceded that the "original decision involved matters of fine judgment."

Mr David Damant, a member of the Accounting Standards Committee, said:

"There is a strong argument for order and comparability of treatment of such issues. But no one should think that the decision will affect real issues like the bank's future cash flows one iota.

"It is doubtful," he added, "whether any account-users would make any different decisions whichever way the figures are presented.

Poland to lift prices by 40%

By Christopher Bobinski in Warsaw

THE POLISH Government announced yesterday that food prices would rise an average 40 per cent next year, following the Government's failure to win public support in a referendum last month for more sweeping austerity measures.

The announcement came as the ruling Communist Party convened a central committee meeting to sum up the referendum results.

The authorities failed to win an absolute majority for their policy of economic and political change but did secure the support of two thirds of those who voted.

The Government had planned an increase of 110 per cent in food prices, but this had been reduced to 40 per cent, Mr Zbigniew Messner, the Prime Minister, told the central committee.

The overall rise in the cost of living index (which excludes alcohol and tobacco) would be 27 per cent and not the 40 per cent suggested before the vote.

So far this year, the cost of living has risen 26 per cent.

General Wojciech Jaruzelski, the party leader, set the tone of the meeting when he said that reforms would not be dropped as a result of the referendum.

Indeed, as the meeting continued yesterday, it appeared that hardline doubts about Gen Jaruzelski's cautious political proposals would not emerge with full force.

The doubts centre on plans to recognise the private sector as an enduring phenomenon, to explore the possibilities of agreement with moderate opposition critics and to strengthen local government.

Hart back in race for presidency

Continued from Page 1

edged that his private life would come under further scrutiny, but he added defiantly: "We are not quitters."

Mr Hart has never been a traditional politician and yesterday he admitted he had "no money, no organisation, no pollsters, no consultants" in his 1988 bid, which will open next February in the first presidential primary in New Hampshire.

He is undeterred and appears driven more by the need for public recognition and debate of his ideas on military reform and economic policy than for money.

Throughout his two presidential bids, Mr Hart's campaign has been dogged by debt. At present, he owes about $1.6m from the 1984 and 1988 campaign.

The Federal Election Commission said yesterday that since Mr Hart's return to the presidential race, he is entitled to Federal matching funds for every $100,000 he raises from private donors.

Warning on missiles for Iraq

IRAQ could soon acquire from Brazil ballistic missiles capable of carrying nuclear warheads or chemical weapons up to 300km, an expert in the international arms trade said yesterday, Reuter reports from Stockholm.

Mr Aaron Karp, who monitors the international arms trade for the Stockholm International Peace Research Institute (SIPRI), said this was just one alarming development in the spread of ballistic missile technology to Third World nations.

"The Brazilian SS-300 missile project appears to be financed by Iraq or its supporters. The Iraqis have been fully briefed on the new missile and will be ready to buy it when it is ready in 1989 or 1990," Mr Karp said.

"The dimensions are the minimum thought necessary to carry a likely Third World nuclear missile," he said.

In two unpublished studies, Mr Karp said a pact signed this year by seven Western industrialised nations on halting the spread of ballistic-missile technology was likely to prove ineffective.

Such self-propelled, guided missiles can be used to deliver nuclear bombs or chemical weapons with devastating accuracy over a long range, Mr Karp said in the studies, due to appear in US defence journals in the next few months.

"The pact may slow things down a bit but it won't stop them. Determined buyers of such technology will inevitably find unscrupulous sellers," he said.

Mr Karp said the accord signed last April by the US, Britain, France, Canada, Italy, Japan and West Germany lacked mechanisms both to monitor compliance and enforce restraint.

Pressure mounts over Gaza violence

Continued from Page 1

with a report inflation in Israel had risen 1.6 per cent last month.

Local press coverage has been erratic, with reports playing down the scale of the troubles intermingled with outspoken comment.

Most Israeli Ministers have remained silent over the past week as the clashes have steadily spread.

Mr Ezer Weizman, the outspoken minister without portfolio, broke the silence yesterday.

In a jibe at the Prime Minister, the former hawkish Defence Minister turned dove, said: "Whoever thinks this is a passing thing is making a very serious mistake.

"It is...a result of the failure to find a political solution, and the lack of a desire to even look for a political solution."

Yesterday, the Israeli army took part in exchanges with demonstrators throwing stones and bottles throughout the narrow Gaza Strip region. An army spokesman confirmed that troops shot dead one person in the village of Beit.

World Weather

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	C	14	57	Dubrovnik	C	10	50	Malta	F	17	63	Rhodes	R	18	64
Algiers	F	20	68	Edinburgh	S	1	34	Manchester	C	1	34	Rio de Ja'o	C	35	95
Amsterdam	C	-2	28	Faro	R	17	63	Manila	S	30	86	Rome	F	12	54
Athens	F	16	61	Florence	C	11	52	Melbourne	S	30	86	Salzburg	C	-1	34
Bahrain	S	22	72	Frankfurt	C	0	32	Mexico City	S	22	72	San Francisco	R	12	53
Bangkok	S	30	86	Funchal	C	20	68	Miami	C	25	77	Seoul	F	5	41
Barcelona	S	13	55	Geneva	S	5	41	Milan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Japan unveils Asean package

Continued from Page 1

Preferential Trading Arrangement, which operates within Asean, will be expanded, lowering tariffs and increasing the number of goods covered. Japanese officials said the terms of the generalised system of preferences would be improved in April on 40 per cent of the 145 items included in the agreement.

Non-Asean countries will be allowed to take majority stakes in joint venture companies, which, it is hoped, will increase investment.

The six leaders agreed at the congress to meet next "in three to five years, if necessary"

Texaco plan may force assets sale

Continued from Page 1

plans to appeal against the Texas rulings in the US Supreme Court. It said it might also file its own re-organisation plan with the bankruptcy court.

The common front between Texaco's general creditors and a committee of stockholders puts Texaco's directors under intense pressure to accept the plan. Even if they reject it, the bankruptcy judge has said that the plan can be considered if two-thirds of Texaco's stockholders approve it.

Wall Street believes that Mr Carl Icahn, the takeover specialist who played a decisive role in persuading Pennzoil to accept the $3bn figure, will be decisive in convincing institutions to vote in favour. Mr Icahn controls 12.3 per cent of Texaco and a block of Pennzoil.

Texaco is believed to have cash reserves of about $5bn, but much of this is needed for working capital or is tied up overseas. The group's majority holding in Texaco Canada is thought to be worth up to $2bn.

SECTION II – COMPANIES AND MARKETS
FINANCIAL TIMES
Wednesday December 16 1987

Rumours of bid prompt Nedlloyd suspension

By Laura Raun in Amsterdam

NEDLLOYD, the Dutch transport group, was again the subject of hostile takeover rumours yesterday as share trading was suspended following a sharp rise in the stock price.

The group will make an announcement tomorrow, said Mr Peter Knottenbelt, secretary to the board. He declined to comment on persistent rumours that the company is the target of a planned corporate raid.

Trading in the group's shares on the Amsterdam Stock Exchange was suspended at midday by a joint decision of the bourse and Nedlloyd after the share price jumped 13 per cent to Fl 141.50 ($77.1) from Fl 125 at Monday's close.

It is the second time in five months that stock dealings have been halted due to a precipitous price rise on speculation over a takeover attempt.

Nedlloyd, based in the port city of Rotterdam, has business which includes ocean shipping, overland transport, airlines and offshore exploration activities.

In recent years it has rapidly built up its airline and trucking operations through acquisitions of Netherlines, a regional Dutch airline, and Van Gend & Loos, a trucking company. Transavia, its charter airline subsidiary, began regularly scheduled service between Amsterdam and London earlier this year.

Nedlloyd would be worth about Fl 500m at current prices and is considered attractive because of its huge cash-flow per share. A comparatively high book value enhances its appeal.

These attractions are seen as outweighing a plunge in earnings expected this year due to the low dollar and slump in worldwide shipping.

USX launches plan to capture share of export markets

BY OUR NEW YORK STAFF

USX, the Pittsburgh-based industrial group which is the largest US steel producer, said yesterday that it was launching a campaign to capture export markets for steel products opened up by the tumbling dollar and lower production costs.

The group, which is operating near capacity in several steel product categories because of booming domestic demand, said it hoped eventually to export up to 10 per cent of its production of finished steel products.

In a surprise announcement, USX said yesterday that it would reactivate its export subsidiary, United States Steel International, which was made idle in 1984.

Mr Thomas Graham, president of US Steel (USS), the USX steel division, said: "The unit is being reactivated to sell USS products outside the US now that currency ratios have become more advantageous for American export activity."

Mr Giuseppe Columbari, a US Steel veteran who will head the revived subsidiary, warned that domestic demand for some product groups was so strong that capacity for export was "very limited."

"We're establishing a base if domestic demand subsides," he said. "Over three years, there is no reason not to be approaching 10 per cent of our finished product output" in exports. Product output is running at about 1m tonnes a month.

Thomas Graham, USS president: taking advantage of lower dollar

Since the higher dollar and rising costs drove US Steel out of export markets, the company has cut capacity sharply and raised productivity from almost 11 man-hours per tonne to just over three man hours. The dollar has fallen more than 40 per cent against big trading currencies.

Mr Columbari said that the unit would initially address developing countries, but he expects to "establish a niche in Europe and Japan."

Bell & Howell agrees to leveraged BHW buy-out

BY OUR FINANCIAL STAFF

BELL & HOWELL, the US text book publisher and information services concern which put itself up for sale last month, has agreed to a $678.4m leveraged buyout by BHW Acquisition, a group led by Mr Robert Bass, the Texas investor, and Bell & Howell management.

The definitive agreement, worth $64 a share, is subject to BHW obtaining financing by February 15 1988. The group said it had firm commitments for $200m.

The deal appears to end a lively contest for the company, which had put itself on the block in response to share purchases by the Bass group, US publisher MacMillan and Mr Robert Maxwell's Maxwell Communication Corporation (MCC).

Bell & Howell had revenues and net income of $853m and $32.9m respectively last year.

UK MERCHANT BANKING GROUP CUTS £7M FROM 1987 PROFITS

Market crash hits Guinness Peat

BY STEVEN BUTLER IN LONDON

GUINNESS PEAT, the UK merchant banking group, yesterday cut £7m ($12.6m) from its 1987 profits to account for market-making losses incurred since the stock markets crash in October. The company, which also further wrote off £23.825m in extraordinary items, is to pull out of the US property market and has provided £16.5m against expected losses in this area.

Mr Michael Kerr-Dineen, managing director, said he was pressing ahead to strengthen the company's balance sheet and improve earnings. The group's market-making activities – concentrated in entertainment and leisure stocks – were under review.

The extent of the provisions had been made possible, he said, because of the takeover of the company in September by Equiticorp, the New Zealand financial services group. Equiticorp now has a 61 per cent holding.

Before the provision for the £7m losses, the group met the target of £30m pre-tax profits that it originally forecast for the year to the end of September. Pre-tax profits before exceptional items rose 40 per cent to £30.13m, reduced to £23.13m.

Further undisclosed provisions for expected losses of £9m are understood to have been made at Guinness Mahon, the group's merchant bank, to allow for sovereign debt and other bad debt. This wiped out the contribution from the bank to the group's overall profits, although total investment banking activities contributed net £6.68m.

Mr Kerr-Dineen said: "I've been given the chance to clean this company out once and for all. The reason I'm so confident this time is that there is no reason to hold back at this point, given Equiticorp's backing."

The £7m losses, which occurred after the end of the accounting year, more than offset about £5m of 1987 profits from the group's market-making activities.

On the provisions relating to the US property portfolio, Mr Kerr-Dineen said: "I have taken what is a ruthless provision against it. We'll do an orderly realisation of the portfolio and hopefully something will come back."

Other extraordinary items include £1.5m against closure of Guinness Mahon's Singapore business, £1m on the disposal of a trading subsidiary, and £4.8m for bid defence and termination payments for executives who left after the Equiticorp takeover. These included Mr Alastair Moreton, former chief executive.

Mr Kerr-Dineen said the write-offs against shareholders' funds were more than offset by the £44m surplus on revaluation of the group's holding in GPA, the associated aircraft leasing company which contributed £7.81m in operating profits.

Two new US subsidiaries acquired in the last year have guaranteed three-year minimum profit contributions of $13m from Forstmann-Fell Associates and $5.25m from Management Compensation Group have been protected by forward buying at $1.41 and $1.56 to the pound.

Contributions from the group insurance broking division rose from £7.1m to £7.6m. Mr Kerr-Dineen named insurance broking and fund management as possible areas for the group's expansion.

Earnings per share rose from 6.02p to 6.20p, with the full year dividend rising 11.6 per cent to 2.65p per share.

Authorities take control of four stock exchange brokerages

Mexico acts to bolster market

DAVID GARDNER in Mexico City reports on how stock exchange regulators have reacted to a crisis in futures trading. Of 250 complaints from the public being examined by the equivalent of the Securities and Exchange Commission, 26 are being taken to trial. "Insane activities" by brokers are being investigated.

MEXICO's stock exchange regulators have taken over administrative control of four stock brokerages in an effort to sort out anomalies that have surfaced in the wake of the markets' collapse during October and November.

As part of a package of "corrective measures ... to safeguard the patrimony of the saving public", the Comision Nacional de Valores (CNV), the Mexican equivalent of the US Securities and Exchange Commission, has also shut down futures trading. It warned that it intends to enforce minimum capital requirements for brokers, several of which have been fined for a variety of irregularities.

In the four brokerages taken over, the CNV says cryptically, "elements were found which led to the conclusion that unless they were administratively supervised their operating structure could be weakened".

The four, Abaco, Afin, Arka, and Finsa, centred much of their activity on the two industrial centres of Monterrey and Guadalajara, where futures trading reached its most feverish in the run up to the crash.

At the beginning of last month, stock market analysts say, there were some $500m in leveraged stock purchases unsettled with the brokerage industry as a whole, three quarters of them futures transactions.

The financial authorities and the leading brokerage houses all but announced a $600m "life boat" to deal with the problem but then, after confirming the rescue plan, the Government withdrew, sending the market spiralling even further downwards.

The 49-stock index responded to the CNV package and, perhaps rather more, to Monday's 22 per cent devaluation of the peso, by jumping 9 per cent to open yesterday at 112,958.

The market had reached the year's low of 95,484 on November 17, down 75 per cent from its 387,000 high on October 5, having risen through the year 750 per cent, making it the top performing bourse in the world.

On November 18 it jumped 27 per cent when the Bank of Mexico floated the "free market" peso, which fell sharply, leading almost inevitably to yesterday's formal devaluation.

Thyssen unit lifts profits to DM124m

By Haig Simonian in Frankfurt

THYSSEN INDUSTRIE, the engineering arm of West Germany's biggest steel and engineering conglomerate, raised pre-tax profits by 12 per cent to DM124m ($76.6m) for the year ended September 1987 against DM111m last year.

Revealing that sales fell 4 per cent to DM5.2bn against DM5.4bn last year, Thyssen Industrie said yesterday it would pay DM50.8m to the parent company against DM44.5m in 1985-86.

Mr Werner Bartels, chief executive, said that despite the more difficult economic circumstances, every division was now profitable for the first time, thanks to a long process of cost-cutting which was at last bearing fruit.

There was a further danger of business going abroad if domestic production costs continued to rise, a familiar current theme in German manufacturing industry.

Gardini sets sights on buying Enichem

By David Lane in Milan

MR RAUL GARDINI, the chairman of Montedison, the Italian chemicals group, has declared his wish to acquire Enichem, the state chemicals company.

He told a parliamentary commission in Rome that Enichem, a subsidiary of the state hydrocarbons holding corporation ENI, should be privatised.

Mr Gardini was appointed to the Montedison post earlier this month after a protracted struggle for boardroom control.

The merger of Enichem into Montedison's operations would permit the creation of a national chemicals corporation able to compete against the principal international groups, said Mr Gardini.

He described Enichem as being much weaker in terms of profitability; rationalisation and restructuring at Montedison has allowed it to reach a level of profitability similar to its European competitors.

Underlining the case for a Montedison takeover, Mr Gardini said that Montedison was more important than Enichem and had more managerial capacity.

In his remarks, Mr Gardini lent weight to the proposal for a takeover of Enichem which was made three weeks ago by Mr Giorgio Porta, Montedison's managing director. Mr Porta then emphasised the need for greater internationalisation of Italy's chemicals sector.

The replacement of Mr Mario Schimberni as Montedison's chairman by Mr Gardini was widely thought to be related to the company's heavy borrowings.

Mr Gardini told the commission that Montedison's borrowings amounted to L 7,800bn ($6.49bn). He said that cash-flow was such that this figure was not worrying, though it might limit investment.

INTERNATIONAL COMPANIES & FINANCE

Karen Fossli interviews the Norwegian group's newly-appointed chief executive

Statoil faces more changes at the top

STATOIL, Norway's troubled state oil company, faces some profound changes to its organisational structure if Mr Jan Erik Langangen, the newly-appointed chairman, has his way.

Mr Langangen took over at Statoil late last month following a big management shake-up which resulted from disclosures of a massive NKr6.4bn ($849m) cost over-run on a refinery and terminal project at Mongstad, on the west coast of Norway.

His appointment at the age of 37 raised a number of eyebrows, not least because he remains a full-time president of Storebrand, Norway's largest insurance group.

However, Mr Langangen has settled quickly into his new chair. "We are looking at the various options and have to decide a new structure for the company. Once we've completed that work, and our suggestions are accepted by the politicians, we will have to concentrate our efforts on completing the Mongstad project," he says.

"It's a good climate for implementing changes and, although the board has yet to discuss a possible restructuring of Statoil, I personally think that the company has now completed its build-up phase.

"Statoil is no longer a newcomer and it might take some changes within the organisation because of the growth in operations which it has experienced. The structure of the company will have to be looked at in order to identify which operations are the profit centres."

Mr Langangen, widely described as dynamic, is not likely to pull any punches when he completes his examination of Statoil.

When he took over at Storebrand in 1983, he entered the ailing insurance company like a hurricane, ripping out the weak links in its organisational structure.

By 1985, when he took over the presidency at Storebrand, the company's top six managers quickly departed.

Storebrand then went on to merge with the Norden insurance group and the fusion resulted in the departure of the group reinsurance division, which set up on its own.

Jan Erik Langangen: not likely to pull punches

In all, some 22 top or upper managers have left Storebrand since Mr Langangen's arrival.

Mr Langangen acknowledges that he may not be able to implement such speedy changes at Statoil, which is state-owned. "There will be a political process involved which could prove to be insuperable," he says.

"I've had the fortunate experience to view Statoil from the inside, when I worked there during the period 1975 through 1983, and I've also had the benefit of viewing it from the outside.

"I believe that what was right for the organisational structure of Statoil during its developing phase may not be right for its structure in the future. We will have to examine the set-up to see if it's still appropriate."

Mr Langangen also has definite views on Statoil's international expansion, and the pace at which that has been taking place.

"It's my opinion that Statoil should go more international. Of course, there are pros and cons in international expansion. But the business world is becoming more global and to keep Statoil as a large national company, operating more or less within national boundaries, as a special set-up for Norway, would create problems.

"In order to be a sound business organisation in the future, we will need to have the international market as our playground. The pace at which we undertake this challenge is not that important but it is important that Statoil becomes more international."

Should Mr Langangen and his board seek major organisational changes within Statoil, a formal proposal to the Storting (Norwegian parliament) will have to be tabled and, more importantly, a political consensus will have to be reached.

"Maybe that will mean semi-privatisation. I don't start by saying that it's a must, and today I have no conclusions on that matter.

"But we have to think this through in order to see if this is one of the options and, if so, what the consequences would be," he says.

One of Mr Langangen's first jobs will be to appoint a successor to Mr Arve Johnsen, the outgoing president. He says it would be an advantage if the new president has oil industry experience but that this would not be a prerequisite for the job.

Nokia buys SEL audio and video operations

By Olli Virtanen in Helsinki

NOKIA, the diversified Finnish electronics group, yesterday agreed to buy the audio and video activities of Standard Elektrik Lorenz (SEL), the West German subsidiary of CGE-Alcatel of France.

No price tag was put on the deal, which brings in business both inside and outside Germany. The operations lost money last year and will bring in about DM1.6bn ($981m) of sales for 1987.

Under the agreement, SEL's annual production of 1.2m colour television sets and 1.7m tubes, as well as 350,000 video recorders, will be transferred to Nokia. The acquisition will raise Nokia's annual production of TV sets to 2.5m and boost its European market share by more than 14 per cent.

According to Mr Kari Kairamo, Nokia's chairman, the acquisition opens effective distribution channels for Nokia's entire consumer electronics business. As a result, Nokia now stands a better chance to respond to competition from outside Europe.

Explaining the disposal, Mr Helmut Lohr, chairman of SEL, said the division was too big to be a niche producer and too small to counter increased international competition. Without the sell-off, SEL could have been faced with heavy redundancies.

Nokia has grown rapidly in recent years to become Europe's third biggest television manufacturer. In 1983 it bought Salora of Finland and Luxor, the Swedish producer. Last year Nokia's TV side recorded net sales of FM2.1bn ($523.6m).

This year Nokia acquired Oceanic, the French TV maker, from Electrolux of Sweden, adding another FM600m in net sales.

After the SEL deal, Nokia's consumer electronics operations will have sales of about FM7.5bn.

The takeover means that consumer electronics will account for 60 per cent of Nokia sales. Group turnover totalled FM12bn last year.

Order fall hits Maho workers

BY ANDREW FISHER IN FRANKFURT

MAHO, the West German machine tool company which came to the stock market a year ago, is putting workers on short-time early next year after a sharp drop in new orders.

With the order backlog down to DM60m ($37m) against DM110m a year ago, Mr Werner Babel, chairman, said: "We are facing a difficult time."

In its financial year ended June, Maho raised net profits from DM11.8m to DM12.2m on turnover of DM365m, against DM339m.

Profits were burdened by DM7m of costs associated with going public. On calculations of the German analysts association, adjusting for irregularities, profits were 41 per cent higher at DM18.2m.

Mr Babel, whose family owns more than 60 per cent of the shares, said the 24 days of short-time working would occur in weeks which already had a public holiday. He could not say whether more short-time would be necessary.

However, Maho is continuing to invest heavily, with some DM40m of capital spending planned for 1987-88, after DM32m last year. Nearly 80 per cent of sales are in Western Europe.

Maho had felt the effects of weaker investment activity in the economy since the start of the year, Mr Babel said. In the 1987 calendar year, new orders were down by 19 per cent against a total industry level of 27 per cent. But recent months had shown an improvement.

Maho's announcement is the latest sign that parts of German industry are feeling the effects of worldwide economic uncertainty, allied to the continuing strength of the D-Mark.

Skandia aiming to tap insurance broker deals

BY SARA WEBB IN STOCKHOLM

SKANDIA, the leading Swedish insurance group, said yesterday that it plans to set up an insurance company which would accept business from insurance brokers.

The group expects to see a growth in the number of insurance brokers operating in Sweden when regulations covering their activities come into effect, probably next year.

The regulations will give international brokerage companies the opportunity to conduct business in Sweden. Mr Leif Victorin, deputy managing director of Skandia, said the group wanted to be ready for the competition.

At present, most Swedish insurance policies are sold directly to customers. However, many international insurance brokers have representatives in Sweden and Skandia believes that, in two to three years, up to 15 per cent of insurance business will be sold through brokers.

The new company, which will be called ProSkandia, will have a capital base of SKr100m ($16.9m) and may be ready to start operating next spring, provided the Government gives its approval.

Baer sees higher net earnings

BY JOHN WICKS IN ZURICH

BANK JULIUS BAER, the Swiss bank, expects a "double-digit" percentage increase in net profits this year which, according to Mr Hans J. Baer, chief executive, would permit payment of a higher dividend.

Profits in 1986 totalled SFr34.6m ($26.2m) and the payout was raised from 17 to 18 per cent.

The bank expects a further rise in earnings for 1988.

Operational profits before depreciation are forecast to go up by another 10 per cent. While it is felt that commission income could fall slightly, prospects are seen as good for foreign exchange and precious metals trading and interest income.

As a result of the stock market crash, the value of assets managed by the Baer group fell by about 10 per cent, to an estimated SFr20bn.

Futures losses at Wardley Thomson

By David Dodwell in Hong Kong

WARDLEY THOMSON, one of Hong Kong's leading futures brokers, which is a joint venture between Wardley, the Hongkong Bank subsidiary, and Thomson McKinnon of the US, lost at least HK$90m (US$11.6m) following the near-collapse of the local futures exchange in October.

Mr John Mansfield, chief executive of Wardley Thomson, said the losses were due to the failure of a number of clients to meet margin calls on Hang Seng Index futures contracts in the wake of the Hong Kong stock market crash following a controversial four-day closure after Black Monday on October 19.

Hong Kong's stock market was worse hit than any other major market worldwide in the wake of Black Monday. Between the market's opening on October 19 and the resumption of trading on the following Monday, the Hang Seng Index fell by 41 per cent, from 3,783 to 2,242. Over 43 per cent was wiped off the market capitalisation.

The decision to suspend trading on both the stock market and futures market was in part linked to fears over the consequences of the almost-certain bankrupting of the Futures Exchange Guarantee Corporation if trading had been allowed to continue.

In the week of closure, an emergency rescue package was arranged by banks, stockbrokers and the Hong Kong Government, which provided a total of HK$4bn to meet the liabilities of futures traders. In the end, HK$1.8bn was needed to settle outstanding margin claims.

Worst-hit after the crash were local private investors, who had been speculating heavily in Hang Seng Index futures contracts, many of them without adequate margin cover. Most international institutions had used the exchange to hedge investments on the stock market and so were mainly "short" sellers who stood to lose only if local speculators failed to settle outstanding futures contracts.

Perhaps worst hit of these was Mr Robert Ng, whose family heads Sino-Land, the property group, and who controls futures trading companies with outstanding liabilities put at HK$900m.

In this context, Wardley-Thomson's losses are modest, but Mr Mansfield conceded this week that they transformed what should have been "an extremely good year" into a less profitable one.

Mitsubishi group ahead

By Our Financial Staff

MITSUBISHI CORPORATION, Japan's largest trading company, increased group net earnings by 7.2 per cent in the half year to September to Y16.045bn ($125m), or Y10.31 a share, from Y14.968bn, or Y10.30 a share, a year earlier. Sales rose by 3.1 per cent to Y6,877bn.

The company attributed the rise to increased trading profits and lower interest costs. It said the income gain was encouraging, particularly as profits from securities transactions fell to Y6.418bn from Y19.071bn.

The sales rise was credited to a gradual recovery in oil prices, an upturn in domestic demand for construction materials and steady growth in car exports.

Pressure thrown back on North Broken Hill

BY BRUCE JACQUES IN SYDNEY

ACQUISITIVE PRESSURE was thrown back on North Broken Hill Holdings yesterday, following the big mining company's surprise A$580m (US$417m) bid for diversified colleague Peko-Wallsend on Monday.

More than 14m North shares were booked in Sydney and Melbourne, with the price rising from A$2.78 to A$3 at one stage, before closing at A$2.80. And Peko-Wallsend issued a strongly-worded statement claiming North's offer "did not appear to be in keeping with earlier discussions on a possible merger between the two companies."

Most of the North shares were apparently booked in London, with Ord Minnett and McCaughan Dyson, the two brokers which were active in North shares last week, leading the pack. This has inevitably led to speculation that Peko was yesterday's buyer of North and raises the possibility of a share-buying duel between the two companies.

North decided to bid on Monday after seeing more than 5 per cent of its capital purchased in the previous week. North was seen to be treating the purchases as a raid by Peko, which could be nearing the 10 per cent disclosure threshhold in North if it has been as active as rumoured.

Ironically, by pushing the North share price up from A$2.50 last week, the value of the company's Peko bid of two North shares plus A$1 cash has been lifted to nearly A$7 a Peko share, or A$680m.

Peko shares responded in kind yesterday, jumping from A$5.24 to A$7 each, but on thin turnover, revealing no evidence that North was in the market for its scrip. With the two companies now clearly jockeying for strategic positions, Peko directors said the North bid did not "give adequate recognition to the profit contribution of Peko nor the value of its underlying business."

UBS Holdings acquires one-sixth stake in Cusaf

BY JIM JONES IN JOHANNESBURG

UBS HOLDINGS, the South African financial services group, is to acquire one-sixth of Cusaf (Commercial Union Assurance of South Africa), Commercial Union's 45 per cent-owned South African associate.

Cusaf is to increase its share capital by 20 per cent and issue 2m new shares to UBS for R38m ($19.6m). The transaction does not in itself represent a divestment by Cusaf's British parent, although its interest in the enlarged company will drop to 37.5 per cent.

Minority shareholders will be given the option of acquiring additional shares equivalent to 25 per cent of their existing shareholdings at R19 each from UBS and/or Gold Fields of South Africa, which has 30 per cent of Cusaf's pre-expansion equity.

Cusaf, along with other short-term insurers, has suffered from strong competition. In 1986, net short-term premium income was R167m and the underwriting deficit R2.7m. Premium rates have increased but they have been offset by soaring car theft and burglary losses.

UBS has expanded rapidly in the past year after changes to legislation governing building societies. In August, it acquired 30 per cent of Volkskas, South Africa's fourth largest banking group and has also established a commercial banking arm. Pre-tax profit was R31m in the six months to September 30.

●Otis Elevator, the 51 per cent-owned South African lift and escalator subsidiary of United Technologies, has again passed its dividend to eliminate its overdraft. Earlier this year, South Africa's tax authorities decided to reverse earlier tax breaks which allowed Otis to offset future expenses against advance payments on long-term contracts.

As a result, Otis was obliged to borrow to overcome cash flow difficulties exacerbated by its long-standing policy of paying dividends which fully absorb earnings.

Turnover rose to R63.4m in the year to November 30, from R60.2m in the previous year and the pre-tax profit rose slightly to R14.4m, from R14.2m. The year's earnings were 43.2 cents a share, against 42.2 cents a year before.

Ramcorp buys 4.9% of Telecasters

By Our Sydney Correspondent

ANOTHER round of restructuring in the Australian media industry may have begun, with newcomer Ramcorp spending just over A$3.2m (US$2.3m) for a 4.9 per cent stake in Telecasters North Queensland, which operates TV stations in the Queensland cities of Townsville and Cairns.

The purchase may have leverage for Ramcorp because Mr Alan Bond's Bond Media has a 19.9 per cent stake in Telecasters and may be forced to sell because of changed federal government media laws. Bond, which operates TV stations in Sydney, Melbourne, Brisbane and Perth, could breach the national audience limit of 60 per cent if it does not sell one or more of its interests.

Mr Allan Hoy, a Ramcorp director, said the move was strategic, especially since his company already controlled six rural TV stations in New South Wales. "Ramcorp has no immediate plans for the stake, but Telecasters is an interesting area and something may develop in the long term," he said.

INTERNATIONAL CAPITAL MARKETS

Clare Pearson on a rare issue in the domestic bond market

B&C loan stock bucks the trend

"RESUSCITATING the dinosaur," was how one person described it," said Mr Tom Quinn, director of primary markets at Barclays de Zoete Wedd, following the launch of a £100m, 25-year unsecured loan stock issue for British & Commonwealth, the financial services group, on Monday.

Such issues in the domestic bond market have been extremely rare in the last two years. According to Gilbert Eliott, the stockbroker, the last unsecured loan stock for a British company was a bond for Tesco, the food retailer, launched in June 1986.

Indeed, except for banks, which have used them to raise capital, unsecured loan stocks have never been in vogue among British companies. In recent years the equity market has presented an attractive alternative source of long-term funds. And corporate treasurers have traditionally been reluctant to lock into high sterling interest rates.

One of the reasons why B&C's issue caused such surprise in the market on Monday was that many market specialists were still thinking in terms of the UK corporate treasurer's traditional rate ceiling on long-term funds of 10 per cent. B&C's bond bore a yield to maturity of 11.5 per cent.

But people like Mr Quinn now see the market for unsecured loan stocks entering an entirely new era, as a direct result of the stock market crash.

UK companies – many of which are relatively undergeared – that do not wish to issue shares on current price/earnings ratios and want to avoid the mismatch inherent in financing long-term assets with shorter term banking facilities, may now begin to look at unsecured loan stocks seriously.

Companies that are well-known in the international market might prefer to issue Eurosterling bonds instead, of course. This has been the route taken by companies such as ICI and Trafalgar House over the last 18 months when they discovered they could issue 17 to 20-year bonds at rates around or below 10 per cent.

Roundabout route

But the cynics would say that is just a roundabout route of accessing the UK pension funds and insurance companies anyway, since most of the long-term Eurosterling issues have achieved little international distribution.

Given the expectation of low government funding requirements in the future, creating a void into which other borrowers could jump, it could all add up to a bright future for the unsecured loan stock market.

But dealers said yesterday there was one problem with this theory: the performance of the B&C issue itself. A number of market specialists said it had clearly not been well placed, while one went so far as to remark: "It was the wrong name at the wrong time."

The problem may be that the very failure of British companies to accustom investors to unsecured bonds has made them particularly choosy about the kind of credits they favour. Further, it was particularly unfortunate that the unsecured loan stock market should have been reopened at a time when there is a general flight to quality or else to cash.

The ideal issue with which to brighten up the domestic bond market, one dealer pointed out, would have been a secured bond for one of the breweries, whose bonds have traditionally been welcomed in the market.

Dealers were at a loss to find any bonds with which to compare B&C's issue. The benchmark corporate issue was issued way back in January 1984 by British American Tobacco, but neither this nor the clearing banks' issues provided a very exact comparison with a company that has changed so rapidly as B&C has.

Launched at a yield differential over the reference gilt-edged stock of 1.75 per cent, B&C's issue was changing hands at a margin as wide as 1.87 per cent yesterday.

Not that it had been thought tightly priced. As soon as the bond issue appeared, one dealer said, yield margins on existing issues widened out by up to 20 basis points, reflecting the expectation of switches. The differential on the issue for BAT, for instance, widened out from 110 basis points over on Friday to 122 yesterday.

Bad timing

Rumours had been circulating that another issue was about to emerge this week. But some dealers said the performance of B&C's issue may make this less likely.

But if the timing of the bond – when weakness in the gilt market has been exacerbated by normal year-end problems – was bad, that does not mean that there cannot be a revival in the unsecured loan stock market in the longer term.

However, the best known companies are likely still to prefer the longer-dated Eurosterling market, on the grounds that issuing procedures are easier and quicker and the UK institutions have less say over the terms on which international bonds are issued. Call provisions, for instance, are not acceptable in the domestic market.

And, though interest rate considerations do not seem to have bothered B&C, a commitment to locking into double-digit interest rates over a 25-year period could still look daunting to many other companies.

Bell buys big concrete and quarry operator

BY OUR FINANCIAL STAFF

MR ROBERT HOLMES A COURT, the ambitious Australian entrepreneur who was hard hit by the October 19 stock market plunge, has paid A$38.4m (US$27.6m) for Sellars Holdings, a concrete and quarrying concern.

Mr Holmes a Court's Bell Group has been selling investments since the October stock-market crash and so far has raised about A$1.9bn. He said earlier this month in Perth that Bell Group would soon begin buying new assets, although the acquisition programme would be much gentler than heretofore.

Many analysts have been expecting Bell Group to acquire a company with substantial cash-flow, and Sellars is the first takeover made since the market crash.

Sellars is the largest concrete and quarry operator in Queensland and specialises in quarry products and pre-mixed concrete. It holds about 14 per cent of the Queensland market and is also represented in areas of northern New South Wales.

Bell Group earlier this year acquired Waugh & Josephson Holdings, a New South Wales distributor of Caterpillar heavy equipment.

The acquisition of Sellars Holdings, by Bell Basic Industries from Kern Corporation, an investment and property company, is seen as a further strengthening of Bell's industrial base in the eastern states.

Mr Holmes a Court's disposals so far include holdings in Sears, the British retail chain, Texaco, the US oil company, Broken Hill Proprietary, Pioneer Concrete and Ampol.

He has said he also intends to sell a radio network back to the Fairfax group

Stable first-half profits for Dead Sea Works

BY JUDITH MALTZ IN TEL AVIV

NET PROFITS at Dead Sea Works, Israel's largest natural resources concern, have remained stable during the first six months to September at US$20m compared with the same period last year. Through its earnings, the company remains Israel's most profitable industrial enterprise.

Mr Aryeh Shachar, managing director, said he considered the results to be an achievement, given the sharp reduction in the world price of potash, the company's main product.

New regulations lowering corporate taxes, he said, partly explained why the company's net profits had remained steady. Before tax profits, by contrast, were down 28 per cent.

Aside from the fall in world potash, which according to Mr Shachar was the steepest in 30 years, rising input costs had also adversely affected profits growth.

He was confident, however, that earnings would pick up in the second half. During the past few months alone potash prices had shown a significant increase of 12 per cent.

Mr Shachar said the Works, a subsidiary of the state-owned Israel Chemicals, had increased its sales – virtually all overseas in the first half – by just over 4 per cent to US$192m. The company's first exports to India this year had proven disappointing.

Mr Shachar had been regarded as a leading candidate to take over the managing directorship at Israel Chemicals. However, Mr Haim Erez, a close friend of Mr Ariel Sharon, the country's controversial Minister of Industry and Trade, was appointed last month instead. Mr Shachar subsequently let it be known that he intends to leave the company.

Banque Paribas brings two issues

By Stephen Fidler and Clare Pearson

BANQUE PARIBAS Capital Markets brought two issues to the international bond market yesterday, bringing insinuations – denied by the firm – that it was motivated by a desire to ensure a position in the Top 10 of Eurobond lead managers for 1987.

In dollars, the firm repackaged Italian Treasury certificates to create a $300m issue of floating-rate notes under the name of Ferari III. The par-priced notes carry a margin of ⅛ point over three-month London interbank offered rates. There is a serial redemption of the notes starting in May 1993, with a maturity of February 1994 for the final 35 per cent.

INTERNATIONAL BONDS

While it agreed the notes were tightly priced and unlikely to sell quickly, the lead manager said the yield compared favourably with existing floating-rates notes for Italy, carrying a margin of three basis points below Libor in the secondary market. Paribas said it was bidding the notes at 99.90, a discount equivalent to fees.

The other issue was in D-Marks, where Paribas offered DM150m of six-year paper of Thomson-Brandt International, the big French electronics company, with a coupon of 6¼ per cent at a price of 100¼. The offering is the bank's first in D-Marks.

It had obtained the bonds by exercising warrants attached to a issue of 8 per cent seven-year dollar bonds it lead-managed in February of this year.

This offering was also regarded in some quarters as tight, although the timing of the bond, so close to Christmas, cannot have helped its reception. Market quotations for the issue seemed to show a wide divergence. The lead manager was quoting the bonds at a discount of 1⅛ bid, well within the 2¼ per cent fees, although outside indications suggested the issue had not fared so well.

In the D-Mark secondary bond market, prices stabilised in continued quiet trading after a drop on Monday. Longer-dated domestic bonds gained up to 20 basis points in price, although some shorter-dated issues eased slightly.

In the D-Mark Eurobond market, longer-dated issues gained between 10 and 20 basis points while shorter-dated bonds closed generally unchanged.

However, a recent DM200m 6 per cent six-year issue for Mount Isa Finance was quoted at bid prices ranging between less 3 and less 3¾, down from around less 2½ yesterday.

Eurodollar bonds once again saw very thin trading between professionals, although some dealers said that the volume of business transacted with retail investors was fairly encouraging given the time of year.

Prices were marked higher in sympathy with the US Treasury bond market and yield differentials over US Government bonds tightened slightly. In the 10-year area, Eurodollar bonds posted price rises of up to ¼ percentage point.

Shorter-dated Euroyen bonds remained in reasonable demand from investors who are enthusiastic about the prospects for further yen appreciation but wary of extending maturities in the yen bond market.

Bonds for sovereign issuers, such as a 5⅛ per cent five-year issue for Italy, were attracting the most interest. But dealers said there were also some sizeable orders from clients for higher-couponed corporate bonds, such as a 5⅜ per cent issue for General Electric, due in 1993.

The relatively firm tone in the Swiss franc foreign bond market continued yesterday, with prices closing about ¼ percentage point higher reflecting short-covering ahead of the year-end.

A SFr100m 5 per cent 10-year issue for the City of Yokohama rose by 1¼ points in price to trade at 103¼, compared with a 100¼ issue price. A SFr400m bond for the Province of Alberta gained ½ point to trade at 102, against a 100¼ issue price.

Kredietbank (Suisse) announced a SFr50m five-year bond for Hovedstadsregionens Naturgas, the Danish regional gas company. The 4½ per cent bond is priced at 100¼.

● The Council of Reporting Dealers, the sub-committee of the Association of International Bond Dealers responsible for secondary market making, has said dealers may cease making prices to each other between December 18 and January 4.

This is the first time the market has been officially closed over the Christmas break, although dealers have traditionally closed down operations during this period.

Mannesman to lift spending

By Our Financial Staff

MANNESMAN, the West German industrial company, plans to increase its capital investment by 11 per cent to DM784m ($481m) in 1988.

The company said it will invest DM575m in Germany next year and the remaining DM209m abroad.

Boston Bank writes off $200m Third World debt

BY ANATOLE KALETSKY IN NEW YORK

BOSTON BANK, the 15th largest US bank in terms of assets and the biggest regional banking group outside the money centres of New York, Chicago and California, has written off $200m of its $1bn worth of loans to Third World countries.

The move, which implies that Bank of Boston has given up hope of repayment on this proportion of its portfolio, goes far beyond the mere additions to loan loss reserves made by all the major US banks last spring.

The Bank of Boston initiative, which was announced late on Monday night, could mark the start of an important new stage in the unravelling of the Third World debt problem, with US banks accepting a gradual diminution of their claims on the developing countries.

Despite the reserve-strengthening actions taken by leading US banks thus far, no major banks had previously written off their loans to major debtors such as Brazil, Mexico and Argentina, and these countries' debt burdens have not been formally reduced.

While Bank of Boston's decision to write off some of the debts does not yet involve the legal cancellation of the debtors' obligations, it seems to be a major step in that direction. Because Bank of Boston had already established reserves of $430m against possible loan losses in the Third World, the $200m write-off will not in itself affect its profits.

It will, however, reduce the bank's primary capital ratio, which will decline to 8 per cent by the end of this year. This capital ratio remains well above regulatory requirements and is high by industry standards.

In addition to removing $200m of less developed country (LDC) debts from its balance sheet altogether, Bank of Boston has decided to add a further $200m to its reserves for possible loan losses and to stop including in its income any of the interest which it continues to receive on non-trade related lending to the Third World.

After these moves, the bank will have written off or reserved against 63 per cent of its LDC exposure. It will have increased the non-accruing loans in its Third World loan portfolio from 33 per cent to 100 per cent. The bank said that it would use the interest it continues to collect on these loans to increase its reserves against possible loan losses.

The $200m in write-offs imply that Bank of Boston could now forgive 20 per cent of its LDC debts without any further effect on its balance sheet. The strengthened loan loss reserves mean that even forgiving 63 per cent of its Third World loans would not eat into its profits after the current quarter.

Mr Ira Stepanian, the bank's president, said that Bank of Boston would post a net loss for the fourth quarter, but that it should be modestly profitable for the year as a whole.

Five-year finance for Bowater Industries

BY STEPHEN FIDLER EUROMARKETS CORRESPONDENT

BOWATER INDUSTRIES, the diversified UK packaging company, is raising £150m through a five-year financing being arranged by Barclays de Zoete Wedd.

The financing, in the form of a multi-option facility, includes a committed standby credit, which will carry a maximum margin of 10 basis points and a utilisation fee of 2.5 basis points if more than half drawn. There is an underwriting fee of 6 basis points for the so-called available portion of the financing and 4 basis points for the unavailable.

Lyonnaise des Eaux, the diversified French group whose interests include water and waste management, is raising FFr1.25bn through a multi-option facility. Credit Lyonnais is arranging the facility with Banque Indosuez as co-arranger.

It has a five-year maturity, extendible to seven years, and carries a 5 basis point facility fee. There is a margin on French franc drawings of 10 basis points, while Eurocurrency drawings pay Libor flat.

Shotton Paper, a subsidiary of United Paper Mills of Finland, mandated Samuel Montagu to arrange and Kansallis Banking Group to lead-manage a machinery financing. The financing includes a $80m syndicated facility, which will be incorporated with a £120m loan and guarantee facility arranged in 1984.

Elsewhere, Grand Metropolitan signed a £1bn multi-option financing with a group of 27 banks led by National Westminster. The financing, doubled from the original target, is thought to be the largest multi-option facility yet arranged.

●The first issue of sterling-denominated medium-term notes was placed on behalf of Commercial Union under its Ecu500m multi-currency note programme. BZW, which placed the notes, said they carried a two-year maturity.

E2* rating for Leeds Permanent

By Our Euromarkets Correspondent

EURORATINGS, the London-based ratings agency, yesterday assigned to the Leeds Permanent the lowest credit rating it has yet awarded to a British building society.

It assigned an E2* rating to the Leeds Permanent's short-term deposits and an A minus* rating to its long-term deposits. The asterisks signify that the society did not request the ratings.

The Leeds Permanent's lower ratings reflected the "higher degree of vulnerability ... to adverse economic developments." Its capital levels were lower than for many competitors and trends of profitability had been uncertain over recent years.

EuroRatings has assigned higher E1* and A plus* ratings for the National and Provincial Building Society.

FT INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Closing prices on December 15

	Issued	Bid	Offer	Change on day	Change on week	Yield
US DOLLAR STRAIGHTS	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
YEN STRAIGHTS	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
OTHER STRAIGHTS	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
DEUTSCHE MARK STRAIGHTS	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
SWISS FRANC STRAIGHTS	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FLOATING RATE NOTES	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
CONVERTIBLE BONDS	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

* No information available–previous day's price

† Only one market maker supplied a price

Mystery raider takes 14.9% of Great Portland

BY CLAY HARRIS

Great Portland Estates, the property company, was the target of a £60m "dawn raid" yesterday morning, but takeover fever swiftly cooled when it became clear that the buyer was a UK institutional investor intent on leaving its interest at the new level of 14.9 per cent.

Warburg Securities swooped to buy 19m shares, about 12.5 per cent of the total, at 319p, against the close of 268p on Monday. The shares fell back to finish at 306p, a 38p rise on the day, giving the company a market capitalisation of £496m.

Neither the company nor Warburg would reveal the identity of the raider. The institution contacted Great Portland after the raid, however, and satisfied the *company of its benign, long-term* intentions. It will not seek a seat on the board.

Great Portland's property portfolio is particularly strong in London's West End and in the area north of Oxford Street, around the street from which it takes its name.

The district is changing from light industry, largely garment manufacturing, to offices, with redevelopment bringing large increases in rents.

Mr Richard Peskin, chairman and managing director, has steered the company onto a more active course since succeeding its founder, Mr Basil Samuel, early in 1986. This year Great Portland took a 50 per cent stake in Bride Hall Developments, a property trading company with a diversified portfolio.

Although the company has been a perennial takeover candidate, yesterday's raid surprised *property analysts who* questioned why the investor had not pounced more quickly after the October market crash.

The raid price yesterday morning was only 12p short of the shares' all-time high in September, but more than 50 per cent above the post-crash low of 206p. Analysts have been forecasting net assets of about 290p per share by the financial year-end in March 1988.

British Rail Pension Fund indicated yesterday that its stake in Great Portland had not changed from the 7.87 per cent total held on November 20.

British Land exceeds expectations with £23m

BY MARTIN DICKSON

British Land, the property company headed by Mr John Ritblat, yesterday announced interim pre-tax profits of £23.5m, double the £11.7m made in the same period last year.

The figures were ahead of market expectations and this, coupled with yesterday morning's institutional dawn raid on the shares of another property company, Great Portland Estates, helped the shares move ahead to close at 255p, up 12p on the day.

Net rental income totalled £17.8m (£13.7m), profits from industrial activities were £700,000 (£2m), and profits from property sales jumped to £12.3m (£5.1m), while securities dealing, dividends and sundry income totalled £700,000 (£2.9m).

Over the past year the company has greatly reshaped its portfolio and this is reflected in the interim figures. Last December it bought the half of the Euston Centre in London which it *did not already own, and profits* from this now count under rental income rather than dividends. It has also made numerous sales of properties, including the recent disposal of French and Dutch interests, and sold its major remaining industrial subsidiary, Gripperrods, in September for £30m.

Mr Ritblat said yesterday that ample liquid resources have been increased by asset sales, with net indebtedness down to £175m at the end of November.

The impact of the sales is reflected in the interest charge, which drops from £12m to £8m. Tax accounted for £7.6m (£2.2m), leaving earnings per share of 7.3p (6.8p). The interim dividend rises 15 per cent to 1.44p (1.25p).

● comment

British Land gets full marks for perceptive timing : the increased liquidity produced by the restructuring of its portfolio earlier this year have left it very well placed to cope with life after the Great Crash. With gearing in the low 30s (excluding investments, which would drop the total to the low 20s) it has plenty of scope for acquisitions from the more distressed of its brethren. And although its properties are heavily concentrated in London, the portfolio has been broadened over recent years to rednce dependence on the City's Plantation House. (There, despite the recent acquisition of neighbouring Cereal House, redevelopment *is not likely before* the early 1990s, by which time Black Monday should be distant history). Helped by a good reversionary flow, full year profits could reach £45m, though a rising tax charge will probably cut eps to around 14.5p. The shares stand on a 25 per cent discount to forecast year-end n.a.v. of up to 340p a share. Sound value, particularly when set alongside the price being paid yesterday for Great Portland's equity.

Richards profits up

Richards, carpet manufacturer, raised pre-tax profits from £728,000 to £1.3m for the year to end September. Earnings worked through at 7.97p (4.26p). There was exceptional expenditure of £160,000 (nil).

The final dividend is increased from 1.3p to 1.9p, making a total of 2.6p (1.9p) for the year.

Gulliver acquires 10% of Broad St.

By David Waller

MR JAMES GULLIVER, the Scottish businessman who recently announced his intention to step down as chairman of Argyll Group, has taken a 10 per cent stake in the Broad Street Group, USM-quoted public relations company.

Appointed chairman with immediate effect, his role *will be to help Broad Street* transform itself into a major broadly-based communications consultancy. Hitherto, the company has been best known for its aggressive role in some of the City's most contentious takeover bids.

These included the Guinness/Bells bid, when Broad Street acted for the winning side. Later, the agency *switched its allegiance from* Guinness to advise Argyll during its abortive attempt to acquire Distillers.

Explaining his plans for the group, Mr Gulliver said yesterday that he would be developing a long-term strategy to take it further into related areas such as consumer advertising, corporate identity and more general management consultancy.

This would inevitably mean large acquisitions where his wealth of contacts within Scottish institutions would be invaluable. "I have been *promised* very substantial backing for any ventures I undertake. I shall help Broad Street do the deals."

Broad Street joined the USM in August last year via the reverse takeover of Stanelco. Since then it has made a number of small acquisitions – including that of Financial Dynamics, a rival PR firm – and announced pre-tax profits of £281,000 in the six months to April 1987, on turnover of £4.02m.

During his long business career, Mr Gulliver built up the Fine Fare supermarket group and Argyll. He described himself "as perhaps the pioneer in the field of advertising for food retailers" due to his involvement *with Fine Fare, and pointed* out that the last agency he backed was Saatchi and Saatchi.

His duties at Argyll come to an end in September next year. *In the meantime, he* intends to develop his own business interests and earlier this week took control of Waverley Cameron.

Suspended at 57p on December 11, Broad Street's shares were relisted yesterday and closed up 11p at 68p. Mr Gulliver bought 3.25m shares at 38p, and has options to buy a further 3m new shares at between 80p and 120p.

Broad Street also announced the acquisition of Markham, a marketing *and fund raising consultancy, for a maximum total* consideration of £4m in shares.

Nikki Tait on the imminent end to the Storehouse/Benlox saga

More questions than answers

"COSTLY", "ill-conceived", "ridiculous" - Sir Terence Conran, head of the Storehouse retail group, has never wanted for descriptions of the Benlox bid.

In fact, as "demerger" proposals from the relatively tiny investment-dealing to civil engineering company rumble through their final week, nothing is so prevalent as the sense of a non-event.

True, there have been some last-ditch attempts to spark the offer into life. A pair of rival, strongly-worded circulars have thudded through shareholders' letter-boxes in the past few days. But, with the next (third) closing date on Friday – for some curious and unexplained reason just a weekend away from day 60 – recent SEAQ trading volume in Storehouse has eased back to under 1m shares a day, and few in the City expect any pre-Christmas surprises.

Whatever the institutional shareholders' qualms about the current state of Storehouse - *"very considerable" suggests one* retail analyst - embracing Benlox seems unlikely to be the solution.

Taken at their face value, the Benlox demerger proposals suffer from two disadvantages. The first is that they offer fewsolutions to the real retailing question-marks which currently hang over Storehouse. As John Richards at Wood Mackenzie puts it: "The bid may be intellectually feasible, but the problems have been facing parts of Storehouse before the company came into play."

Those problems can be categorised into three areas. The first is *the perceived lack of central* supervision – painfully brought home by continued warehousing problems at Mothercare, which led to the announcement of a 3 per cent dip in first half profits mid-bid. The Mothercare mishap lost the chain market share, sent its own profits 27 per cent lower to £9.9m in the first six months, and – in the view of most analysts – is the sort misjudgement which a large retail combine simply cannot allow to happen.

The second, somewhat related, issue concerns Sir Terence's own commitment and motivation to Storehouse - the subject of a good deal of colourful press comment during the bid. On that point, the latest defence document from Storehouse is clear: "I personally remain committed to Storehouse: its success will be the culmination of my life's work. It is a challenge I still relish and enjoy," writes Sir Terence. Nevertheless, a suspicion has been planted that the Storehouse chairman is not at heart a "big group man", keen on tussling with the somewhat mundane retailing mechanics – no matter how impressive his design contribution to society in general.

The third question mark concerns the BhS strategy. As Peter Jones, at Shearson Lehman, puts it: "BhS is a very efficient business but it faces a straight conundrum of sales." The *company's first half profits performance* was respectable - up 10 per cent on a 7 per cent sales rise. But like-for-like volume increases were a modest 2 per cent and analysts would still like more evidence of an improvement in real sale densities. In fairness, Storehouse has always maintained that BhS's revival would be a three-year programme; so far it has had only two, during which time some £90m has been spent on refurbishing the stores and ranges.

The summarised effect of these doubts has been all too evident in the performance of Storehouse shares. Since the BhS merger in early 1986, Storehouse has underperformed the All-Share Index by more than 35 per cent and the stores index by about 30 per cent. Scarcely *surprising then if stories of Sir Terence* suffering a rough ride at certain institutional presentations should have circulated.

Admittedly, a demerger - conducted by Benlox or anyone else - would achieve a heap of bid possibilities. Once split into manageable bites, there would be little problem finding buyers for the Richard Shops chain or, probably, Habitat/Heals. Mothercare, despite the current hiccup, might well attract interest from the likes of Sears or Boots. BhS remains the problem. Arguably, the company is best treated as a *property play: one theory is that* the chain itself could be slimmed down, and that other retailers, like Marks & Spencer, would be interested in spare sites. And it is worth remembering that 3 per cent stakes in the company are still held by publisher Mr Robert Maxwell and Mr Tony Clegg's Mountleigh Group.

But the second drawback to the current bid is Benlox itself. The company – whose own market capitalisation now stands at £20m against Storehouse's £1bn – has been under its current management for less than a year. During that time, it has won a "demerger" bid for another mini-conglomerate, Nolton, although details of the first promised split-off (Carr & Day) are now unlikely to emerge until the New Year. It has recruited one retailer, former Woolworth director Malcolm Parkinson, at a rate of £150,000 a year (although claims to have others in waiting if successful).

And it has Dr Ashraf Marwan, the Egyptian financier, as a 23 per cent shareholder. Dr Marwan's part in the bid is dismissed as "zilch" by Benlox itself, but the confusion over the financier's boardroom role, his apparent appearance as a spokesman to the Sunday press mid-bid, coupled with a series of share purchases in both Benlox and Storehouse, has done little to *emphasise this passive* participation. Moreover, in accepting the Benlox terms, shareholders would effectively pay a fee of up to £15m to its advisers, Ifincorp Earl, whose expertise in both retailing and demerging, as Storehouse points out, is untried.

So what does the future hold for Storehouse, assuming that Benlox is seen off? At present, the City seems to be betting on a somewhat uneasy truce, at least until the new Storehouse chief executive is appointed. That appointment will obviously be crucial; in the words of one analyst: "It will need to be seen as someone with authority, able to take a firm grip on the group." Quite who will fill the gap remains a guessing game. Sir Terence *himself* has said that there are several candidates in waiting, but that none are prepared to commit themselves while the shadow of Benlox still hangs over the group.

But if that appointment is delayed, or the benefits take long to show through, many company-watchers predict that the retail group could be back in play before the end of 1988.

If Storehouse still has problems, however, so does its predator. Should the Storehouse scheme fail, Ifincorp Earl will have three failed demerger bids to its name and only one success (the much smaller Nolton bid). Its efficacy, even as a means of putting companies into play, looks a little questionable. That was not a matter Mr Peter Earl, the guiding light behind the demerger schemes, was keen to discuss this week. "To even think about not succeeding is the wrong thing pyschologically," he said.

Somehow, that does not sound likely to make Sir Terence quake.

Porter Chadburn shows sharp fall to £0.16m

Porter Chadburn, manufacturer of food and drink and general engineering equipment, saw pre-tax profit fall from £347,000 to £158,000 on turnover down from £10.9m at £10.1m in the six months to September 30 - its first set of figures since the July management buy-in backed by Charterhouse.

"The results were broadly in line with our expectations from July," said Mr Ray Dinkin, chairman.

Earnings per share were 0.25p (1.30p), while the interim dividend was 0.25p (1p). Allowing for the increase in share capital, the interim dividend was maintained.

Turnover was similar to last year, except in the oil services company where it dropped following the disposal of the loss-making Swift International.

The delay of some orders from September to October also adversely affected turnover.

All divisions contributed to profits, except for plastics. Mr Dinkin blamed shortages and high prices of polymer, which is used for plastic packaging bags.

However, he was confident that the division would return to profit over the second half.

General engineering and Continental Pressing Technic were particularly strong contributors. The food and drink division performed better than in the second half of last year.

Restated to include Tasco, a distributor of products in sports and leisure, profit would have been £581,000 (£611,000) on turnover of £17.4m (£16.2m).

Tasco was acquired in October for an initial consideration of £6.6m.

Porter Chadburn has completed a strategic review of businesses and Mr Dinkin said some disposals were possible.

He added that the second half of the year had started exceptionally well.

The company intended to reduce the level of gearing below the present 50 per cent, although its ability to do so might be limited by further acquisitions.

● comment

The key to Porter Chadburn's future lies somewhere in the marketing past of Mr Dinkin, a former vice-president of Scott Paper. He is likely to be casting around for specialist marketing-oriented businesses, though these will not necessarily be in distribution. The likely seeds of these are in the engineering, paper and packaging industries. But Porter Chadburn is no nice clean shell, simply rich in cash and under-utilised readily disposable assets. It is a company which had lost its way, a collection of mixed businesses, some of which, like oils and plastics are more difficult than others. The Tasco acquisition suggests additional pointers; Porter Chadburn is likely to acquire healthy businesses with good management which are then allowed to operate independently. In the nearer future, pretax profits of £1.5m for the year look reasonable.

Explaura shows reduced loss at interim stage

LOSSES of **Explaura Holdings**, which has limestone interests in Newfoundland, totalled £14,029 for the half year ended June 30 1987. No comparative figures were prepared in view of the changes which have taken place in the nature of the company's business.

The directors said yesterday that they remained firm in their view of the strength of the company's primary market, the east coast of the US.

Discussions were being held with purchasers there who were interested in taking substantial quantities of limestone aggregates when sales commence in the spring of 1989.

The directors added that it was possible that the company's *facilities may also be employed* for the processing and shipment of other minerals from the area of its quarry project which were also in strong demand on the east coast of the US.

The reported results for the opening half year did not include any costs for the quarry project. They did, however, reflect the first phase of planned sales of other investments (*£118,333*) *and general overhead* expenses (£107,192).

For the year to December 31 1986 the company, whose offer for sale on the USM in September was oversubscribed more than ten times, ran up losses of £407,662 at the pre-tax level.

Graig Shipping profits triple

Graig Shipping almost tripled pre-tax profits to £1.04m against £354,689 in the half year to September 30 1987 on turnover ahead from £3.25m to £8.85m.

Earnings per £1 share improved to 34.06p (15.38p) after tax of £354,000 (£47,000). The interim dividend is being held at 5p. A total of 15p was paid for the year to March when the pretax result was just £701,000.

UK COMPANY NEWS

Lisa Wood reports on the strong results of two regional brewers

Vaux profits rise 23% to £21.6m

Vaux, the Sunderland-based brewing and hotel group, yesterday reported pre-tax profits of £21.59m for the 53 weeks to October 3, an increase of 23 per cent on last year.

Earnings per share were 34.7p (30.6p) with a proposed final dividend of 9.5p making a total of 14.2p, a 17 per cent increase.

Turnover was £181.7m compared with £163m last year. Breweries contributed £87.2m, Swallow Hotels £48.6m and the wine and spirits business £45.9m.

At the pre-tax level the brewing business contributed £9.8m, Swallow Hotels £10m and the wine and spirits division some £1.1m. Mr Paul Nicholson, chairman of Vaux, said: "Our aim is to develop each of our businesses but at the moment we see more opportunities in hotels than beer and public houses. The opportunities for us in hotels are most exciting."

The brewing division said Mr Nicholson had seen an increase in market share in the north east with draught beer volume up by about one per cent in a static marketplace although sales had been adversely affected by poor summer weather. Vaux brews Carlsberg under licence in a refurbished brewhouse and lager now accounts for 34 per cent of its output.

On sales to supermarkets Vaux said improved efficiencies at its plants had enabled it to maintain profitability in this area.

Swallow Hotels, the seventh largest chain in the UK, had an excellent year said Mr Nicholson. The division now has 33 hotels, 14 of which have leisure centres, with three hotels under construction. Mr Nicholson said: "We have ambitious plans to build further hotels where we can find suitable sites. We also intend to develop further our existing hotels." The wine and spirits division had a year of "consolidation" with sales in the 156 off-licences improving in real terms while on the wholesale side the division was the largest wholesaler in the north east.

Shares of profits of related companies- including Tyne Tees Television in which Vaux has a 19.4 per cent stake - contributed £996,000.

Devenish surges 49% to top £9m mark

J.A.Devenish, West Country brewer, yesterday reported a pre-tax profit of £9.06m for the year ended October 30 1987, an increase of 49 per cent on the previous year. This was achieved on a slightly lower turnover of £41.65m (£42.27m) and included £2.03m from property disposals compared with £1.56m last year.

Earnings per share were up 57 per cent to 17.67p, with a final dividend of 2.25p per share making a total of 3p compared with 2.7p.

In early 1986 Devenish, with 350 public houses, merged its operations with Inn Leisure, a fast-growing operator of 40 public houses and wine bars. The management of the business is now led by that of Inn Leisure which claims it has brought professional management skills to a traditional brewer.

Mr Michael Cannon, chairman of Devenish, said:" This shows you what professional management can do, particularly in the Devenish estate. The profits are there to be had."

The changed pattern of distribution to the tenanted estate in Devon and Dorset, with Ushers, a subsidiary of Grand Metropolitan, brewing a Devenish ale under licence and supplying it and other beers to tenants there, reduced turnover but increased profitability from the division.

Devenish's new strategy was to renovate the top 15 per cent of its pubs, dispose of the 10 per cent of poorer properties, and buy into urban areas, including London. As part of this strategy it has been converting tenanted pubs into managed houses, of which it now has 131 compared with 74 at the beginning of the year. This development had reduced its dependance on seasonal trade with the growing elderly population being attracted into more comfortable pubs. A total of £7m has been spent on refurbishment and acquisition of new pubs this year.

In addition the brewer is testing a pub partnership scheme, proposed in the UK by Elders IXL, the Australian brewer which owns Courage, in which tenants are offered a 50 per cent stake in their public houses. Some nine pilot schemes are currently operating within Devenish, with properties effectively mortgaged to the National Westminster Bank. Mr Cannon said he expected a sizeable take-up of the scheme. Devenish has also been trebling capacity at its Redruth brewery in Cornwall where a range of new "added value" products under the Newquay Steam brand name will be brewed with a capacity of 300,000 barrels a year on stream by April. These products, brewed to strict Continental purity standards, are being offered to other brewers as "niche" products.

Bett Bros lifts profit to £1.1m

Bett Brothers, Dundee-based property investor, licensed premises manager and commercial vehicle distributor, lifted taxable profits from £849,000 to £1.07m on turnover £500,000 ahead from £15.42m to £15.92m in the year ended August 31,1987.

The directors proposed a final dividend of 2.2p (2p) making a total for the year of 3.5p - up from 3.2p last time - and after tax of £419,000 (£304,000) earnings per 20p share jumped from 3.2p to 4.03p.

They said that they were confident of further solid progress being achieved during the current financial year. Bett Brothers was expanding its property and leisure businesses and further strong contributions to group profits were expected from these core activities this year and beyond.

They cautioned that the commercial vehicles division operated in a still difficult market but expected a further improvement. The group's focus was therefore now on specialised businesses in which it has proven skills and could project clear long-term growth potential.

Bett paid interest of £919,000 (£954,000) and an extraordinary charge of £46,000 (£65,000).

John Perkins

John Perkins Meats, USM-quoted meat wholesaler, beefed up taxable profits substantially in the 53 weeks to October 3 from £231,000 in the previous 52 weeks to £682,000 on turnover up from £17.53m to £22.12m.

After increased tax of £237,000 (£71,000) earnings per 10p share worked through at 3.49p (1.66p) basic and 3.49p fully diluted. The directors declared an unchanged final dividend of 0.6p making a total for the period of 1.8p (1.2p).

Acquisitions help boost BSS to over £4m in first half

BSS Group, a distributor of industrial heating and pipeline, lifted pre-tax profits from £3.98m to £4.26m in the half year ended September 30 1987, helped by the growing contribution from Manor Building and Plumbing Supplies, acquired a year ago. The comparative figures are restated.

At the same time the company announced another acquisition, that of Ivco Process Valves, a distributor of process control valves, for around £3.65m. This complements the purchase of AM Supplies (Pumps and Controls) in October. The company is now wholly concerned with distribution.

An interim dividend of 4p (3.25p) is being paid from earnings ahead by 1p to 14.7p per 20p share.

Turnover improved by 11.6 per cent to £47.21m (£42.31m). Mr I.H. Phillipps, the chairman, said that group performance during the closing months of last year and the first three months of the current year reflected quieter trading and the impact of increased expenditure on new developments. Trade had subsequently been strong and had reflected benefits from that expenditure.

The trend had continued into the second half, he added, saying that the directors were confident in the group's progress.

Operating profits worked through at £4.18m (£4.17m) and the pre-tax result was after interest received of £74,000 (£188,000 debit). Tax took £1.55m (£1.45m). Last time there was an extraordinary debit of £126,000 relating to discontinued businesses.

Jack Israel rises by 44%

Jack L. Israel, USM-quoted importer and distributor of fruit and vegetables, increased pre-tax profits by more than 44 per cent on turnover up 95 per cent in the six months to September 30 1987.

Profits rose from £427,000 to £617,000 on turnover ahead from £17.31m at £33.78m. The results included five months contribution from John Martin Foods for which Israel paid £5.6m in April. In the year to March 31 profits fell 28 per cent from £1.42m to £1.02m.

Mr John Alexander, chairman, said that a strong performance by the traditional manufacturing, catering and retail supply activities has been supplemented by the new activities in nuts, dried fruit and canned fish, which were introduced with the purchase of Martin.

After tax of £205,000 (£135,000) earnings per 4p share rose from 0.44p to 0.5p. There is no interim dividend. Last year, Israel paid a final dividend of 0.5p.

Mr Alexander said that the company was committed to a policy of building a broadly-based group with an increasing range of products and services, offering sustained growth for its shareholders. He said Israel would continue to pursue opportunities for further growth to strengthen further and broaden its operating and financial base. He said it was determined not to become over-dependent on any single area of operation or activity.

Lister on target at £1.5m

Lister & Co., textile manufacturer, boosted taxable profits from £1.25m to £1.5m on turnover up from £23.78m at £24.53m in the six months to September 26, 1987.

Mr Justin Kornberg, chairman, said that the results had been in line with the company's expectations and that indications were that profits in the year to March 1988 would be satisfactory.

After tax down sharply at £132,000 (£249,000) earnings per share rose from 6.03p to 8.42p. The directors doubled the interim dividend to 1p-total for last year was 3p.

Mr Kornberg said that as a result of the continued downturn in the hand-knitting market the company was withdrawing from that area of activity. Lister faced the present post-crash uncertainties with a strong balance sheet following the sale of its principal investment property in London's New Oxford Street for £15.3m.

Minority interests accounted for an unchanged £2,000, whileextraordinary items added £9.02m (£398,000) from the sale of the New Oxford Street property.

Plysu ahead by 20% midway

Plysu, Buckinghamshire-based plastic container manufacturer, reported a 20 per cent expansion in taxable profits to £3.25m in the six months to October 10.

The outcome was scored on group turnover of £22.17m - up from £17.46m last time - a figure comprising £18.03m (£13.76m) from UK containers, £3.56m (£3.15m) from housewares and £587,000 (£550,000) from other sources. The Dutch operationadded £2.18m (£2.06m) to the overall total.

After tax of £1.14m (£945,000), adjusted earnings per 10p share worked through at 4.88p against a comparable figure of 4.05p. The interim dividend is raised to 0.65p (adjusted 0.54p).

Caird builds up waste side with £0.5m buy

BY CLAY HARRIS

A. Caird & Sons, the Scottish property investment company, yesterday continued its move into waste disposal with the purchase of Astbury Plant, landfill operator and quarry owner, for £450,000 in cash and shares.

The acquisition will give Powell & Halsall Haulage, an industrial waste disposal contractor bought by Caird last month, a dedicated tip at Rossett in Clwyd, near Chester. Astbury has a renewable five-year landfill contract at the site.

It also owns a nearby quarry at Bryn-y-Gaer, which Caird hopes to use as a landfill when stone reserves are exhausted. In the meantime, an independent sub-contractor's quarrying operation will produce revenue of £150,000 in the current year.

Mr Peter Jones, one of the vendors of Astbury, will become non-executive chairman of Caird Environ, a new subsidiary which will hold the group's environmental services activities.

Acquisition boosts EDP

The integration of Business Computer Systems, acquired in March 1986, boosted turnover and profits of Sheffield-based **Electronic Data Processing** in the 12 months to end-September.

BCS contributed £5.9m to a total turnover of £14.24m, and £403,000 to group taxable profits of £1.35m.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the sub-divisions shown below are based mainly on last year's timetables.

TODAY

Interims- Belhaven, Caffyns, Dares Investment Trust, ERF, Eve Construction, Gibbs Mew, Moorgate Investment Trust, Northamber, Quest, Scottish and Newcastle Breweries,Tops Estates.

Finals- Acatos and Hutcheson, Amber Day, Borthwick, Channing, English China Clays, Midsummer Leisure.

FUTURE DATES

Interims-	
Anchor International Fund	Dec 29
Bermuda Intl Bond Fund	Dec 29
Pavion International	Dec 18
Reliant Security	Jan 12
Finals-	
Brunner Investment Trust	Dec 17
Watson and Philip	Dec 17
Whieway	Dec 17

Premier buys 4.9% of Tricentrol

BY LUCY KELLAWAY

Premier Consolidated Oilfields yesterday revealed that it hadacquired a 4.95 per cent holding in **Tricentrol**, the fellow oil independent which is fighting off a bid from Elf Aquitaine, the French oil company.

Mr Roland Shaw, chairman of Premier, said that the stake had been built up steadily since the market started to fall in October. Premier had origninally planned to make a full bid for Tricentrol, he said, although this move had been pre-empted by the £135m bid by Elf launched on Friday.

The announcement came amid confusion yesterday over another Tricentrol stake, believed to be about 10 per cent and held by Kleinwort Grieveson. The Takeover Panel is believed to be investigating a complaint which could force Kleinwort to reveal the size of its holdings.

Kleinwort Grieveson would not comment yesterday about its role in the bid or on the extent of its stake. However, Samuel Montague, the merchant bank which is advising Elf, said that it was approached by Kleinwort on Friday and offered a 9.5 per cent of the company at 200p a share. This compared with the 145p bid by Elf.

Mr Shaw said that Premier had not yet decided what course of action to take. He would not rule out it making a counter bid for Tricentrol, although hinted that such a move was not likely. "The guy with the biggest purse usually wins. I may have to take a big profit on my stake and cry all the way to the bank", he said.

Tricentrol shares yesterday rose by 6p to 172p, despite the depressing effect of the falling oil price on the rest of the sector. The market was expecting a white knight to emerge for Tricentrol, or a higher bid from Elf.

WPP in $25m US deal

BY NIKKI TAIT

WPP, the marketing services group which earlier this year took over the Madison Avenue-based JWT Group, yesterday confirmed that it is buying California-based Mendoza Dillon & Asociados, the largest agency specialising in Hispanic advertising in the States.

The maximum purchase price is $25.5m, of which $10m in cash will be paid upfront. The further stage payments in cash and shares will consist of a maximum of $1.5m in 1988 and $5m in 1991, with a final payment in 1992 dependant on post-tax profits from MDA. An additional bonus payment of up to $4m is payable if MDA achieves specific profit targets and a minimum growth rate of 25 per cent average compound on its post-tax profits profits for 1991, compared with the figure for 1986.

Shares issued to the vendors will be held for a minimum of three years and the overall consideration will be based on a ten times multiple of average psot-tax profits for MDA in the three years to end-1991.

The company, based in Newport Beach, saw adjusted pre-tax profits of $1.368m in 1986. Billings in 1987 are put at $38.1m.

Yesterday, WPP shares were steady at 358p.

Aberdeen Steak's provisions

BY PHILIP COGGAN

Aberdeen Steak Houses, the USM-quoted restaurateur, was forced to make an extra provision in its accounts to reflect the settlement of its long-running court case with a group of workers who had alleged underpayment at the group's West End outlets.

The workers were awarded £38,000 plus a contribution to their costs and Aberdeen now says that the provisions made in the 1986 accounts for these items was "with hindsight, a little low" and the balance has been charged against the first half profits.

However, the company did manage to return to the black at the interim stage and Mr Ali Salih, the chairman, is hopeful that full year profits will exceed the 1985 figure of £674,000 and the directors hope to be able to recommend a higher dividend than last year's 1.2p.

Aberdeen's 1986 figures were hit by the decline in American tourists who are significant customers at the group's outlets and pre-tax profits fell back to £605,000. So the return of US visitors in the first six months of 1987 helped the group report turnover up 16 per cent to £5.06m (£4.36m) and interim pre-tax profits of £177,000 compared with a loss of £299,000 in the first half of last year. After tax of £90,000 (nil), earnings per share were 0.7p (loss per share of 1.9p).

Increased trading in partly-paid BP shares

By Richard Tomkins

British Petroleum's partly-paid shares saw very heavy trading yesterday amid speculation that the Kuwait Investment Office was further increasing its take beyond the 13.07 per cent level declared on Monday.

Volume in the partly-paid stock was 184m compared with just 5m in the fully-paid variant. The dealings represented well over a quarter of all business done in leading London stocks yesterday.

Analysts assume that the KIO is accumulating the unwanted stock to take its stake in BP up to the 15 per cent level. Its buying spree yesterday left the mid-price unchanged at 71½p, a figure supported only by the presence of the Bank of England's promise to buy back the stock at 70p.

Amber Day shows sharp downturn

Amber Day, clothing manufacturer and distributor, revealed taxable profits sharply lower at £155,000 in the 60 weeks to July 25. In the comparable period - 53 weeks to end-May 1986 - the group achieved pre-tax profits of £657,000.

Turnover of the Soho-based group, in which a consortium headed by Mr Irvine Sellar holds just under 30 per cent of the equity capital, advanced from £9.37m to £10.13m, but the operating deficit came out at £65,000 against a profit of £232,000 last time.

Interest charges fell to £16,000 (£30,000), while tax took £56,000 (£116,000), and resulted in a loss per 2.5p share of 0.72p (earnings of 1.5p).

Wimpey disposal

George Wimpey, construction group, is selling Buro Center An Der Messe, a property development in Frankfurt, for about £50m. The property, comprising about 33,500 square metres of offices and car parking, is fully leased.

Sears puts its case for taking over Freemans

By Nikki Tait

Sears, the retail, footwear and betting group which launched a £430m contested cash offer for Freemans, the mail order company on Friday, has sent out its offer document.

In it Sears argues strongly that "in an increasingly difficult business environment for mail order, Freemans is struggling to establish itself successfully in the new areas of business which it needs to develop in order to ensure future growth in profits and sales."

Sears argues that its own retailing skills plus its financial and property strengths would help the mail order business.

Last night, Freemans' managing director, Mr Ralph Aldred, said that his initial response to the document was that it contained nothing new, and that the company would be making a more measured response in due course.

Brookmount

Brookmount, USM-quoted property investor and developer, more than tripled pre-tax profits from £707,000 to £2.34m on turnover up from £2.55m to £10.68m for the half year to September 30.

The interim dividend is increased to 1.75p (1.3p) on earnings of 18.8p (7p) after tax of £833,000 (£200,000).

The directors said that the enlarged group now had the assets, the opportunities and the resources to look to the future with confidence.

THF in £26m US hotel deal

BY RICHARD TOMKINS

Trusthouse Forte, the world's largest British-based hotel group, yesterday announced a further expansion of its North American operations with the acquisition of the US-based Skylight Inns chain for £26m.

Skylight has 1,500 rooms in 13 economy hotels across the US. All the properties have been built in the past four years, with 11 of them on freeholds and the others on long leases.

Mr Rocco Forte, THF's chief executive, said the purchase was in line with the group's policy of expanding its North American operations. The Skylight hotels would become part of the Travelodge chain and would fill some important gaps in the network.

THF has some 500 Travelodges in North America. It also has the Viscount chain of business and leisure properties, and a number of five-star hotels which form part of the worldwide Trusthouse Forte Exclusive Hotels chain.

The Skylight hotels are in Chicago, Cleveland (2), Detroit (2), Louisville, Atlanta (2), Greensboro in North Carolina, Columbus in Ohio, Columbia in South Carolina, and Jacksonville and Fort Lauderdale in Florida.

Dealing lifts Redfearn shares

BY DAVID WALLER

MORE than 20 per cent of the shares in **Redfearn** changed hands yesterday as one Antipodean investor sold his stake in the glass bottle and packaging company to another. As a result, Redfearn's shares jumped 56p to 425p.

Mr Ron Brierley, the New Zealand entrepreneur, sold his 20.5 per cent holding to Overseas Strategic Investments, a vehicle of Mr Dick Pratt, an Australian investor with extensive business interests spanning paper and packaging and financial services.

As Mr Pratt already held 9.45 per cent of Redfearn, his holding is now just below the 30 per cent level at which he would be obliged to mount a bid under Takeover Panel. However a statement issued yesterday by his UK advisers, NM Rothschild said that he had no intention to make a bid and regarded the holding as a long term investment.

"We are particularly impressed with the existing Redfearn mangement," the statement continued, "and hope to assist the company to further improve its market performance."

This was not enough to comfort Redfearn, which apparently received only minimal advance notification of the transaction. The company issued a curt statement calling upon OSI to clarify its intentions and explain exactly how it intended enhance its market performance.

Redfearn has enjoyed a period of recovery since 1985 when Mr Arthur Church was appointed chief executive. Pre-tax profits for 1986-87 were £4.1m, compared to a loss of £23,000 in 1983-84. In June this year, the company diversified into packaging with the £19.5m acquisition of Bunzl Flexpack.

Mr Brierley is belived to have accumulated his holding through IEP Securities in 1985 at below £1 a share. Yesterday, he sold 2.05m shares at 450p, realising a minimum profit of £9.2m.

Mr Pratt is an active investor in UK companies, with declarable stakes in Whessoe and Office and Electronic Machines.

DIVIDENDS ANNOUNCED

		Current payment	Date of payment	Corres-ponding div	Total for year	Total last year
Bett Brothers	int	2.2	Mar 7	2	3.5	3.2
British Land	int	1.44	Feb 12	1.25	-	3.5
Brookmount§	int	1.75	-	1.3	-	4
BSG	int	4†	Jan 22	3.25	-	9.25
Devenish (J.A.)	fin	2.25	Feb 24	2.15	3	2.7
Electronic Data	fin	1.45	Apr 4	1.15	2.1	1.75
F & C Alliance	int	0.24	Jan 26	0.22*	-	1.02*
Graig Shipping	int	5	-	5	-	15
Guinness Peat	int	1.55†	-	1.48	2.65†	2.38
Lister	int	1	Jan 22	0.5	-	3
John Perkins§	fin	0.6	Mar 18	0.6	1.8	1.2
Plaxtons (GB)	fin	3†	-	3	4.5	4.5
Plysu	int	0.65	-	0.54*	-	1.83*
Porter Chadburn	int	0.25◊	-	1‡	-	2◊
Richards	fin	1.9	-	1.3	2.6	1.9
Vaux	fin	9.51‡	-	8.32	14.2	12.13
Viking Packaging	fin	2.34	Feb 5	nil	3.5	nil

Dividends shown pence per share net except where otherwise stated. *Equivalent after allowing for scrip issue. †On capital increased by rights and/or acquisition issues. §USM stock. ‡Unquoted stock. Third market. ‡53-week period. ◊On 5p shares. ♦On 20p shares.

BCal calls for CAA to resist BA licence move

BY CLAY HARRIS

British Caledonian Group last night told the Civil Aviation Authority that **British Airways** had no basis on which to apply for the immediate revocation of BCal's route licences.

BCal urged the CAA not to accept BA's application, which it said had been made "for an ulterior purpose." The application, announced last week shortly after the CAA tentatively approved a rescue package involving Scandinavian Airlines System, was "wholly improper and constitutes an abuse of (CAA) procedures," said Sir Adam Thomson, BCal chairman.

However, if the case were to proceed, BCal said, the CAA should waive the normal notice period and hold hearings no later than December 23.

This would give BCal shareholders additional information on which to choose between the SAS package, which the BCal board has provisionally backed, and BA's rival £200m takeover bid.

Under normal circumstances, the process would be expected to take at least several months, by which time the battle for BCal is likely to be concluded. "The applications are clearly part of BA's campaign to secure a decision in its favour," Sir Adam said.

Last night, his letter had not yet been received by the CAA, which said it would have to consider its contents.

BA claims that SAS would have effective control over BCal even though its initial stake would be limited to 23.5 per cent. Under the recapitalisation package, SAS's stake would rise to 40 per cent through the conversion of preference shares once allowed by the regulatory climate - primarily the removal of internal trade barriers envisaged by the European Community by 1992.

Sir Adam said BA's application was based on assumption, not present circumstances. It was clear, he said, that "the applications are not made on the basis of facts now in existence; indeed it could not possibly be alleged that BCal was, as of now, not controlled by UK nationals."

Sir Adam also said the CAA had the power to refuse to hear the application because the demand for immediate revocation had not been served six months before the date it was proposed to take effect.

Blue Circle pushes Birmid bid

BY MIKE SMITH

Blue Circle, cement company, yesterday outlined the reasons why it believes it is suited to take over **Birmid Qualcast**, the lawnmowers, boilers and cookers group for which it has launched a contested takeover.

In its offer document to Birmid shareholders it said that its bathroom products subsidiary, Armitage Shanks, and Birmid had a unique opportunity to achieve considerable success in the growing home-products market.

Put together, the two companies would benefit from their ability to offer a broader range of products and from their access to each other's distribution channels. They would also be able to co-ordinate their bathroom products manufacture.

"The 300p a share offer seems to be very much a sighting shot," said Mr Alan Emson, Birmid's finance director. "Clearly Birmid is undervalued at that price."

The small print of the document revealed that Blue Circle was defending an action recently brought by Reibor International in New York claiming damages of more than $750m (£407.6m). This was in respect of a proposed joint venture in the Cameroons which did not go ahead.

Blue Circle said it would vigorously defend the action, against which it had a good defence. It believed that the claim would have no material effect on the financial or trading position of the group.

The company described its cash offer for Birmid as generous. The 300p was 50 per cent above the value of shares on the day before the company launched its offer.

It said accepting shareholders would be able to invest the gross cash proceeds to obtain an income 290 per cent higher than they received from their holdings in Birmid.

Storehouse buys Blazer

BY NIKKI TAIT

Storehouse, the retail chain which is currently contesting the "demerger" bid from the relatively tiny Benlox group, yesterday sealed its purchase of the Blazer men's fashion retailer.

Storehouse is paying £4.7m upfront for Blazer, of which £200,000 will be satisfied by the issue of Storehouse shares, plus a further £700,000 in December next year. An additional sum becomes payable dependant on profit performance at the chain in the year to August 1990.

Blazer was set up by Mr David Krantz in 1979, and currently takes in six stores - four in central London, one in Hampstead and another in Guildford. The total selling space is 7,700 sq ft.

Storehouse says that it intends to run Blazer as an autonomous chain within the group and sees room for a steady expansion of its outlets. In the year to August, Blazer produced sales of £4m and pre-tax profits of £600,000. In profit terms, that represented a 50 per cent improvement on the previous year; during 1986/7 three additional stores were opened.

Neil & Spencer warns on share price value

BY MIKE SMITH

SPECULATORS who have recently bought into **Neil & Spencer Holldings**, the laundry machinery manufacturer, were dealt a blow yesterday when the company warned on the level of its share price.

Mr Richard Fleischmann, chief executive and owner of 34 per cent of the company, has made an approach which may lead to an offer for the company.

However, Neil and Spencer said that in view of the group's need for finance, the value of any offer is unlikely to be "anywhere near the present share price."

The ordinary shares finished last night at 11p, down 2p on the day but way below the 42p they were trading at in July when hopes of a turnround were high.

When last month the company reported results, for the first half of the year to May, pre-tax losses were up from £81,000 to £585,000. In the year to November 1986 pre-tax losses were £1.97m.

Neil & Spencer has received expressions of interest from parties other than Mr Fleischmann. It is "pursuing these in order to determine the course of action which is in the best interests of shareholders."

Neil & Spencer, which is advised by Baring Brothers, is capitalised at about £3.2m.

Plaxtons profit doubles to £1.5m

Plaxtons (GB), coachbody builder, more than doubled pre-tax profits from £732,000 to £1.49m on turnover up from £36.95m to £99.88m for the year to September 30 1987.

The final proposed dividend is held at 3p making an unchanged total of 4.5p. Earnings per 25p share surged to 7.6p (4.2p).

The directors said that a good start had been made to trading in the current financial period, there was evidence of some upturn in the coach market, and car and truck sales were buoyant, particularly in contract hire. They looked forward to current and future years' prospects with confidence.

Tax came to £269,000 (£239,000) and there was an extraordinary credit of £413,000 (nil).

Lower world milk output forecast

BY WILLIAM DULLFORCE IN GENEVA

WORLD MILK production has finally stopped expanding and world butter output will be "significantly lower" in 1987 and 1988, according to the annual report on the dairy products market* published today by the General Agreement on Tariffs and Trade (Gatt).

Stocks of butter and skimmed milk powder will be substantially smaller by the end of 1987 than a year earlier, thanks largely to the tough but controversial steps taken by the European Community to reduce its enormous surpluses.

The expected reduction in butter supplies next year should result in an improvement in prices, at least for fresh butter, Gatt predicts.

In sharp contrast to its 1986 annual report, which was particularly gloomy about the outlook for the butter trade and sceptical about plans to curb milk output, Gatt's latest assessment is relatively, if cautiously, optimistic about market trends.

This optimism was earlier reflected in September when the 16 countries adhering to Gatt's International Dairy Arrangement were able to raise minimum export prices for milk powders and some cheeses. Moreover, throughout 1987 butter and milk fat prices have remained at or slightly above the minimum export prices set under the arrangement.

Butter production climbed to 7.8m tonnes worldwide in 1986, boosted strongly by a 150,000-tonne increase in EC output. The extra Community production was prompted in part by the accident to the Soviet nuclear reactor at Chernobyl.

Demand for fresh milk fell temporarily in many parts of Europe after consumers had been scared by the high radiation levels reported from some pasture areas. More milk was processed into products that went straight into stock.

Two Community measures this year have appreciably altered the situation. The first was the EC Farm Ministers' decision in February to dump 1m tonnes of surplus butter on world markets over two years.

Second, EC measures, including limits on intervention buying, to discourage butter production have been effective, Gatt reports. Community butter output fell by 15 per cent in the first half of 1987 compared with the corresponding period for 1986. Over the year as a whole, Gatt expects, it will return at least to the average level of 1981-83.

Community exports of old butter at extremely low prices, principally to the Soviet Union and Brazil, have worried other exporters, but Gatt believes the simultaneous reductions in dairy production and stocks offer a hope for a better balance between import demand and export supplies in the near future.

After expanding by another 1.4 per cent to 520m tonnes last year world milk production has stabilised in 1987 and can "hopefully" be kept within reasonable limits in the future, Gatt reports.

Reductions in output in Western Europe and the US, due mainly to policy measures, were "not likely" to be outweighed by increases in the Soviet Union and some Asian countries.

However, Gatt cautiously adds a couple of riders to its forecasts. The availability of ample feed at low prices and new techniques, notably the use of somatotropin in dairy cows, could make forecasting less reliable.

National policies aimed at increasing self-sufficiency ratios in milk and dairy products could also affect forecasts.

Gatt singles out the Soviet Union. The upward adjustment in retail prices under consideration in Moscow could adversely affect consumption, import demand and even at some stage result in the accumulation of surpluses, Gatt surmises.

The Soviet Union could then offer surplus amounts of dairy products for sale on the world market at very low prices, it adds.

The World Market for Dairy Products. From the Gatt Secretariat, 154 rue de Lausanne, 1211 Geneva, price SFr 12.

Quality worries hit rubber stock sales

BY WONG SULONG IN KUALA LUMPUR

THE INTERNATIONAL Natural Rubber Organisation's buffer stock manager is now back the market, following the recovery of prices to the "may sell" level, but traders are showing little interest in his offerings because of the allegedly poor quality of his stock.

Recent buyers of the buffer stock RSS rubber grades at the Port Klang godowns (warehouses) said they found it contaminated with water and could cost as much as 22 Malaysian cents (4.8p) a kg to dry.

Traders say the wet rubber could be due to poor storage conditions or improper packing leading to condensation.

Since September, the BSm is believed to have sold about 40,000 tonnes from his 370,000 tonne stockpile, but during the past fortnight consumers have avoided his offerings, with the result that he has managed to sell only a few hundred tonnes

"There is increasing market talk about the deteriorating condition of BSM rubber, some of which is four to five years old. China does not want to buy BSM rubber," says one trader.

On Monday, for example, the BSM offered SMR 20 rubber at 230 Malaysian cents a kg, representing a hefty discount of 53 cents from fresh rubber available on the market, but there were no bidders.

Organisation officials say, however, that claims about poor quality INRO rubber have been exaggerated by traders to depress prices. In most instances, they say, buffer stock rubbers are slightly mouldy, and this could be treated at a modest cost.

Rubber prices, which fell below the "may sell" level of 232 Malaysian/Singapore cents a kg in mid-November, in the aftermath of the world-wide stock market crash, have since recovered and appear set to break the "must sell" level of 242 cents.

The INRO five-day moving average, which is the composite rubber price index, is now around 239.5 cents a kg.

While markets in Europe and New York are slowing down ahead of the Christmas holiday season, sentiment in the Far East is bullish in anticipation of production shortages in Malaysia, caused by widespread flooding.

Apart from impeding tapping of rubber trees, heavy rains will also wash away rubber latex collected in the cups placed around the trunks of trees.

Rubber production from Johore and Pahang – two major producing states – could be down by 20 per cent if heavy rains continue next week.

Three SMR factories in two states, operated by the government-owned Federal Land Development Authority, were forced to shut down this week because of floods.

Meanwhile the statistics department said Malaysia's rubber production during the first 10 months of this year rose three per cent to 1.294m tonnes.

Tuna incident nets handsome return for Pacific islands

BY JOHN MADELEY

WHEN an American fishing boat the *Jeannette Diana* was spotted poaching tuna fish in the Solomon Islands' 200-mile exclusive economic zone a high speed chase by a surveillance vessel, the "Sipv Savo" ended with three shots being fired and the arrest and detention of the poacher.

The incident, which happened in 1984, led to the poacher being tried and fined in a Solomon Islands court. And the US Administration retaliated by placing an embargo on tuna fish from the tiny Pacific island of 280,000 people.

But this "mouse that roared" incident led to a spin-off which is benefiting not only the Solomon Islands but some 14 other South Pacific island states.

American 1,000 ton super seiner tuna boats, equipped with outboard freezing facilities, began fishing in South Pacific waters during the late 1970s. The US claimed that tuna was a migratory species that could not be claimed for any one country's exclusive economic zone.

Although tuna was considered fair game by American fishermen (but not by the Japanese, who had made a number of bilateral treaties) the South Pacific island states took a different view.

For them tuna was part of their economic lifeblood and considered far too valuable an export earner to let slip away. About a quarter of the world catch of tuna comes from the economic zones of the region.

When the "Jeannette Diana" incident occurred, the 15 island states which make up the South Pacific Forum were trying to negotiate a multilateral fishing treaty with the US.

In the wake of the incidents the relationship between the two sides remained strained for some time. But Mr Philipp Muller, director of the Solomon Islands-based Forum Fisheries Agency, eventually persuaded the US Administration to lift its embargo and talk about a treaty.

Two years of hard negotiations followed, with the island states sticking to a joint approach and helped on technical issues by officials from the Fiji-based Regional Fishery Support Programme of the UN Food and Agriculture Organisation.

The negotiations ended earlier this year with the signing of a five year treaty which gives the island states $56.5m in aid and a satisfactory level of licence fees.

"It is one of the most complicated fishing treaties ever signed," said Mr Robert Gillett, a fisheries adviser at the Food and Agriculture Organisation, "and it establishes a precedent of small countries getting together to deal with a major power."

Under the treaty the American Government is providing $11.3m a year in aid to the Pacific Forum countries. The US tuna industry will pay $50,000 per vessel for up to 40 vessels and $60,000 per vessel above that level. The maximum number has been set at 60. A Pacific island observer has the right to travel on each of the vessels.

Although the Jeannette Diana incident and its aftermath demonstrated that the South Pacific islands feel passionately enough about their fish to protect it, the willingness of the US Administration to conclude the treaty was helped by the competition that has begun to creep into the South Pacific.

A bilateral fishing treaty signed last year between the Soviet Union and Kiribati (formerly the Gilbert Islands) seems to have encouraged a more open-handed approach by the US Administration so as to appear a more attractive partner than the Soviets in the seas which President Reagan has called "the ocean of the 21st century."

Windward Islands face banana problems

BY CANUTE JAMES IN KINGSTON

THERE IS increasing concern in the Windward Islands, which supply most of Britain's bananas, about the future of the group's British market. Industry officials say the group of four islands has been told that it must improve the quality of export fruit or lose its 30-year-old special access to the British market.

There are also indications that continued growth in Windwards production and expansion in output in Belize will lead to a glut on the British market in three years.

Mr John Compton, the Prime Minister of St Lucia, the leading Windward Islands producer, says he is concerned also that plans by the European Community to liberalise trade by 1992 will reduce the group's market access. St Lucia and the other islands in the group – St Vincent, Dominica and Grenada – last year shipped just over 200,000 tonnes of bananas to Britain, accounting for just under two thirds of British imports.

"If we are to compete successfully with bananas from the Canary Islands, the Cameroons, Surinam, Martinique and Guadeloupe – to name a few – we will have to make our industry more efficient," Mr Compton said. "We have been given five years notice after being nurtured and nursed for 30 years."

St Lucia, which accounts for half the Windward Islands output, was recently forced to reduce shipments to Britain because of a surplus on the market. Mr Michael Lansiquot, president of the islands' banana growers' association, said there was a danger of a fall in prices to exporters if the market was flooded. he said he expected increased demand in Britain by February of next year.

The problems for the Windwards coincide with plans by the industry in Belize to expand production to meet a target of 90,000 tonnes of exports to Britain by 1992.

This year's exports will reach about 19,000 tonnes, say industry officials, following shipment of 11,300 tonnes last year.

The land under bananas has been increased from 800 acres in 1985 to 1,182 acres, following a decision by the Government to privatise the industry, which has been carrying debts of US$15m. The industry plans to increase planting to cover 9,000 acres by 1991.

Mr Craig Griffith, chairman of the Belize Banana Control Board, said recently that Belize and other banana exporters in the region should work together to prevent saturation of the British market.

High hopes from a drop in the ocean

IN A project supported by the FAO's Pacific Region Fisheries Project, live shellfish from Fiji have been successfully dropped by parachute into Tokelau's Fakofo atoll, 270 miles north of Samoa, and could give a substantial boost to the island's economy, writes John Madeley.

Tokelau's atolls are "desert" islands with soil that is continually exposed to salt spray and not capable of growing many crops.

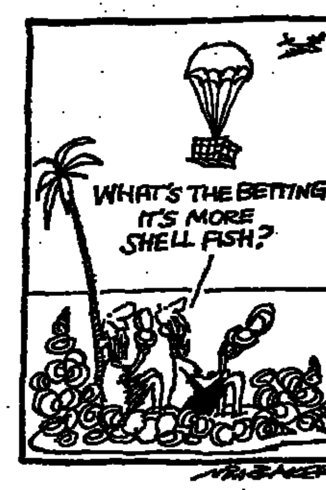
Some 500 tonnes of trochus shells, which contain snails, are harvested each year in Fiji and there have been a number of attempted transplants to neighbouring islands, usually by ship. Some have ended in disaster, however, with the shellfish not surviving the long journeys.

For the Fiji-Tokelau attempt, "the trochus was transported using a variety of techniques" said project official Mr Robert Gillett, "to diversify the risk of a major disaster."

Accordingly, 284 live shells were packed in Fiji into a padded crate, flown the 450 miles to Fakofo on a New Zealand Air Force C130 Hercules aircraft and parachuted into the lagoon at an altitude of 100 metres; 584 shells went by ship and 161 were flown to Western Samoa to join the shipments.

In the lagoon the crate was picked up by project workers "and within minutes the trochus were being placed on the reef" said Mr Gillett. There was only one fatality among the 284 shells. By contrast, 146 of the 584 shells sent by sea did not survive.

The eventual harvest for the 1,800 Tokelau islanders stands to be as high as Fiji's annual catch. "In 1957," says Mr Gillett, "40 trochus were transplanted from Fiji to Aitutaki in the Cook Islands where, like Tokelau, trochus did not occur. In 1981-82, 200 tonnes of trochus were harvested."



Aluminium producers 'near full capacity'

BY KENNETH GOODING, MINING CORRESPONDENT

THE PRIMARY aluminium smelting industry in the non-socialist world is fast approaching capacity constraint, resulting in an upward pressure on aluminium prices, according to the latest report from the Commodities Research Unit.

It suggests that the smelters will operate at 91 per cent of capacity this year.

"Pressure on capacity is such that some closures at high-cost plants have recently been postponed or temporarily rescinded. Continued production at these plants has to be justified by the price level, however, and the closer the industry gets to full capacity, the higher the price necessary to persuade the remaining high-cost potlines to re-energise," says the CRU.

Another factor affecting prices is that the marginal smelters are now in Europe rather than the US.

It points out that as long as the marginal smelters were in the US, exchange rate movements had no impact on marginal costs or prices which are quoted in dollars.

Now, however, the dollar price of aluminium is partly driven by the dollar-Deutsche Mark exchange rate because, even if the marginal smelter is not located in West Germany, most major European currencies are linked to the D-Mark.

CRU estimates that last year the direct operating cost at the highest-cost European smelter was about DM 2870 a tonne in 1986 D-Marks. At the 1986 exchange rate of DM 2.17 to the dollar the plant required a dollar price of $1,322 a tonne to cover its production costs. This year it would require a price of $1,506 a tonne.

The report shows that real direct operating costs of primary aluminium production fell 16 per cent between 1984 and 1987 but costs in some regions – particularly the US – fell much further. On the other hand costs in Europe fell little, if at all, and those in central Europe rose by 9 per cent.

Now the trend has been reversed, says the CRU. Smelting costs are rising and increasingly substantial rises in prices are now required in order to lift output by relatively small amounts.

Primary Aluminium Smelting Costs 1984-89. From the CRU, 31 Mount Pleasant, London WC1 0AD. $7,500.

WEEKLY METALS

All prices as supplied by Metal Bulletin (last week's prices in brackets).

ANTIMONY: European free market, 99.6 per cent, $ per tonne, in warehouse, 2,190-2,250 (2,300-2,340).

BISMUTH: European free market, min 99.99 per cent, $ per lb, tonne lots in warehouse 4.25-4.60 (4.40-4.65).

CADMIUM: European free market, min 99.95 per cent, $ per lb, in warehouse, ingots 3.05-3.13 (2.98-3.05), sticks 3.05-3.13 (2.98-3.05).

COBALT: European free market, 99.5 per cent, $ per lb, in warehouse 6.70-6.95 (6.45-6.70).

MERCURY: European free market, min 99.99 per cent, $ per flask, in warehouse, 280-295 (268-280).

MOLYBDENUM: European free market, drummed molybdic oxide, $ per lb Mo, in warehouse 2.83-2.90 (same).

SELENIUM: European free market, min 99.5 per cent, $ per lb in warehouse, 8.50-9.00 (7.30-7.50).

TUNGSTEN ORE: European free market, standard min 65 per cent, $ per tonne unit WO_3, cif, 48-58 (same).

VANADIUM: European free market, min 98 per cent V_2O_5, other sources, $ per lb V_2O_5, cif 2.80-2.90 (same).

URANIUM: Nuexco exchange value, $ per lb U_3O_8, 16.65 (16.45).

Brazil to bring forward sugar exports

BY ANN CHARTERS IN SAO PAULO

BRAZIL'S Sugar and Alcohol Institute should conclude negotiations with exporters and foreign buyers today to bring forward to January and February sugar exports scheduled for shipment in May and August.

The initial volume under negotiation is 400,000 tonnes, out of 4m tonnes covered by forward contracts through to 1988.

The institute's new chief, Mr Nilson Miranda Motta, put in place recently to investigate and correct irregularities in sugar exporting told the Gazeta Mercantil, a leading Brazilian newspaper, that the fact that no exports were scheduled for the first two months of the year was "very strange." He chose to attribute the anomaly to inefficiency rather than bad faith.

Under current export policies, the institute pays the difference between the cost of production and the export price, which now averages a loss of US$34 a tonne at a US$162 per tonne export price. So the inefficient sugar producer is not encouraged to improve productivity.

Pressure has been put on the Government to turn the institute's export function over to the private sector. President Jose Sarney is to consider this week a decree which would encourage the setting up of trading companies formed by local producers to negotiate sugar exports.

Subsidies to producers and costs of carrying sugar stocks are estimated to amount to Cz 10bn ($149m) for 1987.

WORLD COMMODITIES PRICES

LONDON MARKETS

NICKEL PRICES continued their recent bull run on the London Metal Exchange, with the second position contract adding £27.50 to Monday's £70 advance. Merchant buying took prices to new highs for the current uptrend in the morning. Dealers said there was no follow-through in the afternoon, when trading became subdued, although sterling values were underpinned by currency factors. Aluminium prices also continued to advance. Zinc prices recovered about two-thirds of Monday's losses. Copper prices retreated in the afternoon on sporadic profit-taking in the absence of any fresh lead from New York. Dealers described the market as overbought. Gold fell to $486.75 an ounce on the London bullion market, weakened by a firmer dollar and easier oil prices, dealers said. The decline was also partly attributed to a technical correction from Monday.

SPOT MARKETS

		+ or -
Crude oil (per barrel FOB January)		
Dubai	$15.20-15.30	-0.50
Brent Blend	$16.85-17.10	-0.375
W.T.I. (1 pm est)	$16.90-17.00	+0.725
Oil products (NWE prompt delivery per tonne CIF)		
Premium Gasoline	$171-174	-0.50
Gas Oil	$152-154	-4.00
Heavy Fuel Oil	$73-74	-2.00
Naphtha	$143-146	-3.50
Petroleum Argus Estimates		
Other		
Gold (per troy oz)♦	$486.75	-10.75
Silver (per troy oz)♦	677c	-25
Platinum (per troy oz)	$497.50	-14.50
Palladium (per troy oz)	$119.75	-3.75
Aluminium (free market)	$1800	+10
Copper (US Producer)	134¾-140c	+6¼
Lead (US Producer)	42c	
Nickel (free market)	330c	+2
Tin (European free market)	£3795	+10
Tin (Kuala Lumpur market)	17.01r	
Tin (New York)	320.50c	
Zinc (Euro. Prod. Price)	$880	
Zinc (US Prime Western)	44.375c	
Cattle (live weight)†	106.58p	-0.84*
Sheep (dead weight)†	200.48p	+4.36*
Pigs (live weight)†	72.36p	+0.14*
London daily sugar (raw)	$207.00w	+1.80
London daily sugar (white)	$216.50w	+4.40
Tate and Lyle export price	£218.50	+1.50
Barley (English feed)	£108.50	-0.50
Maize (US No. 3 yellow)	£134.50	-0.50
Wheat (US Dark Northern)	£90.00	
Rubber (spot)♥	62.50p	+0.50
Rubber (Jan)♥	65.00p	+0.50
Rubber (Feb)♥	65.00p	+0.50
Rubber (KL RSS No 1 Jan)	273.00m	+1.50
Coconut oil (Philippines)§	$542.50y	
Palm Oil (Malaysian)§	$415.00	+10.00
Copra (Philippines)§	$365.00	+5.00
Soyabeans (US)	£144.50	+0.50
Cotton "A" index	73.05c	-1.05
Woollops (64s Super)	484p	

£ a tonne unless otherwise stated. p-pence/kg. c-cents/lb. r-ringgit/kg. w-Dec/Jan. v-Jan/Feb. z-Jan. y-Feb/Mar. u-Jan/Mar † Meat Commission average fatstock prices. * change from a week ago. ♦ London physical market. § CIF Rotterdam ♣ Bullion market close. m-Malaysian/Singapore cents/kg

COCOA £/tonne

	Close	Previous	High/Low	
Dec	1015	1022	1024	1012
Mar	1044	1051	1055	1042
May	1064	1070	1074	1061
Jly	1082	1089	1094	1081
Sep	1102	1108	1113	1104
Dec	1126	1132	1137	1125
Mar	1150	1158	1160	1150

Turnover: 8293 (4317) lots of 10 tonnes
ICCO indicator prices (SDRs per tonne). Daily price for December 15: 1343.80 (1354.08). 10 day average for December 16: 1377.18 (1385.98).

COFFEE £/tonne

	Close	Previous	High/Low	
Jan	1198	1195	1198	1186
Mar	1222	1215	1223	1210
May	1242	1234	1242	1230
Jly	1256	1250	1257	1247
Sep	1270	1267	1270	1260
Nov	1287	1286	1285	1281
Jan	1300	1300		

Turnover: 3274 (1507) lots of 5 tonnes
ICO indicator prices (US cents per pound) for December 14: Comp. daily 1979 114.83 (114.89). 15 day average 115.88 (115.84).

SUGAR $ per tonne

Raw	Close	Previous	High/Low	
Mar	185.20	181.20	187.00	180.60
May	185.40	181.20	187.00	181.00
Aug	185.20	181.40	187.00	181.00
Oct	186.40	182.60	188.00	182.20
Dec	188.60	184.60		
Mar	191.20	189.00	192.00	189.20
May	194.00	189.00		
White				
Mar	222.20	218.20	223.00	217.00
May	226.00	222.00	228.50	222.00
Aug	230.00	226.50	229.00	226.20
Oct	232.00	228.00	227.50	225.60
Dec	233.00	227.50		
Mar	238.00	233.00	236.70	234.00
May	242.00	237.00		

Turnover: Raw 2820 (2383) lots of 50 tonnes; White 1885 (1293).
Paris- White (FFr per tonne): Mar 1225, May 1242, Aug 1277, Oct 1272, Dec 1275, Mar 1315.

GAS OIL $/tonne

	Close	Previous	High/Low	
Jan	150.50	155.00	156.50	149.50
Feb	147.25	150.75	152.75	146.75
Mar	143.00	146.75	146.25	142.25
Apr	138.50	142.25	144.00	138.00
May	138.00	141.00	142.00	138.00
Jun	140.00	144.50	140.25	140.00
Jly	141.75	144.50		

Turnover: 10818 (6356) lots of 100 tonnes

GRAINS £/tonne

Wheat	Close	Previous	High/Low	
Jan	114.70	114.60	114.80	114.40
Mar	116.20	116.15	116.40	116.10
May	118.35	118.25	118.50	118.20
Jly	120.90	120.75	120.90	
Sep	103.45	103.55	103.45	
Nov	105.50	105.50	105.50	
Barley				
Jan	108.70	108.75	108.75	108.55
Mar	110.80	110.65	110.85	110.60
May	113.00	110.25	113.00	110.25
Sep	97.70	97.70	97.70	
Nov	100.10	100.10	100.10	
Jan	102.35	102.35	102.35	

Turnover: Wheat 110 (320), Barley 92 (82) lots of 100 tonnes.

LONDON METAL EXCHANGE (Prices supplied by Amalgamated Metal Trading)

	Close	Previous	High/Low	AM Official	Kerb close	Open interest
Aluminium, 99.7% purity ($ per tonne)						Ring turnover 250 tonne
Cash	1810-20	1790-1800		1800-10		
3 months	1760-70	1740-50		1745-60		2,634 lots
Aluminium, 99.5% purity (£ per tonne)						Ring turnover 15,550 tonne
Cash	981-2	971-2	985/975	980-2		
3 months	945-6	928-9	949/929	938-40	944-5	54,765 lots
Copper, Grade A (£ per tonne)						Ring turnover 78,550 tonne
Cash	1553-8	1570-80	1600/1555	1585-90		
3 months	1347-8	1363-4	1380/1300	1374-5	1334-5	81,341 lots
Copper, Standard (£ per tonne)						Ring turnover 0 tonne
Cash	1510-20	1530-40		1550-60		
3 months	1320-30	1335-45		1350-60		39 lots
Silver (US cents/fine ounce)						Ring turnover 0 ozs
Cash	673-6	696-9		667-90		
3 months	700-3	709-12		700-3		843 lots
Lead (£ per tonne)						Ring turnover 5,550 tonne
Cash	352-3	350-1	354/351	353-4		
3 months	343-4	343-3	344.5/342	343-4	343-4	11,839 lots
Nickel (£ per tonne)						Ring turnover 1,350 tonne
Cash	3860-80	3875-85		3985-95		
3 months	3840-50	3815-20	3950/3830	3935-40	3950-5	9,712 lots
Zinc (£ per tonne)						Ring turnover 4,400 tonne
Cash	460-1	449-50	481/460	460-1		
3 months	462-3	451-2	464/461	461.5-2	463-4	13,923 lots

POTATOES £/tonne

	Close	Previous	High/Low	
Feb	103.50	102.50		
Mar	87.50	87.00		
Apr	145.00	144.50	145.20	144.50
May	157.30	158.00	158.00	157.00
Nov	85.00	85.00		
Feb	92.50	90.00		

Turnover: 238 (141) lots of 100 tonnes.

SOYABEAN MEAL £/tonne

	Close	Previous	High/Low
Feb	141.00	142.50	141.00
Apr	133.50	134.00	132.50
Jun	123.00	126.00	
Aug	121.00	122.50	121.00
Oct	121.50	122.50	
Dec	124.30	125.00	

Turnover: 21 (25) lots of 100 tonnes.

FREIGHT FUTURES $10/index point

	Close	Previous	High/Low	
Jan	1286.0	1280.0	1277.0	1285.0
Apr	1292.5	1296.0	1290.0	1285.0
Jly	1140.0	1155.0	1142.0	1140.0
Oct	1250.0	1255.0	1250.0	1245.0
BFI	1258.5	1271.0		

Turnover: 187 (54)

LONDON BULLION MARKET

Gold (fine oz)	$ price	£ equivalent
Close	486¼-489	265-267
Opening	495-495½	269-269½
Morning fix	493¾	269
Afternoon fix	492¼	268¾
Day's high	493¾-495¼	
Day's low	487¼-488	
Coins	**$ price**	**£ equivalent**
US Eagle	503-508	274-277
Maple leaf	503-508	274-277
Britannia	503-508	274-277
Krugerrand	487-490	265½-267½
1/2 Krug	259-267	141-145¾
1/4 Krug	129-137	70¾-74¾
Angel	507-512	277-279¾
1/10 Angel	51-55	27¾-30¾
New Sov.	115-116	62¾-63¾
Old Sov.	115-116½	62¾-63¾
Noble Plat	518-528	281-286½

Silver fix	p/fine oz	US cts equiv
Spot	376.55	691.00
3 months	384.50	705.00
6 months	393.10	719.10
12 months	410.35	748.20

LONDON METAL EXCHANGE TRADED OPTIONS

	Calls		Puts	
Aluminium (99.5%)				
Strike price $ tonne	Jan	Mar	Jan	Mar
1725				65
1800			48	
Copper (Grade A)				
Strike price $ tonne	Jan	Mar	Jan	Mar
2450				271½
2550			150	
Copper (Grade A)				
Strike price £ tonne	Jan	Mar	Jan	Mar
1450			49	

COTTON
Liverpool - Spot and shipment sales for the week ending December 11 amounted to 832 tonnes against 1022 tonnes in the previous week. Fair operations occurred with dealings in Colombian, Russian, W. African, Israeli and Pakistani growths.

JUTE
The Bangladesh export price control has been increased by $10-25 a tonne, but this has not yet affected the market. December/January c and f Dundee BTC $570, BWC $560, BTD $485, BWD $485; c and f Antwerp BTC $530, BWD $475, BTD $485.

US MARKETS

Reports that Opec was adhering to production quotas set at a previous meeting, without any accomodation agreed for Iran or Iraq, prompted heavy selling in the precious metals and energy futures, reports Drexel Burnham Lambert. Precious metals met early profit-taking and the fall accelerated as trade, fund and local selling touched off heavy commission house stops to drive prices sharply lower. The markets penetrated significant support levels, but at lower levels short-covering emerged to pare losses. Copper finished lower after a choppy session featuring commission house selling and trade buying. Crude oil was again lower on trade, fund and local selling which touched off stops as traders liquidated longs. However, trade support was evident underneath the market. Sugar reacted to bullish fundamentals, more particularly good physical offtake in the Far East, as trade and fund buying touched off stops in the face of producer-type selling. Meats were quiet and lower in reaction to Monday's rallies and on anticipated improvements of supplies following the recent snow.

New York

GOLD 100 troy oz; $/troy oz

	Close	Previous	High/Low	
Dec	482.7	496.5	494.2	480.0
Jan	483.9	497.1	0	0
Feb	487.2	500.4	489.2	484.5
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

PLATINUM 50 troy oz; $/troy oz

	Close	Previous	High/Low	
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

SILVER 5,000 troy oz; cents/troy oz

	Close	Previous	High/Low	
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

COPPER 25,000 lbs; cents/lbs

	Close	Previous	High/Low	
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

CRUDE OIL (Light) 42,000 US galls $/barrel

	Close	Previous	High/Low	
Jan	16.66	17.44	17.36	16.68
Feb	16.35	17.07	16.98	16.25
Mar	16.23	16.95	16.84	16.16
Apr	16.22	16.89	16.77	16.10
May	16.25	16.85	16.70	16.00
Jun	16.30	16.77	16.65	16.20
Jul	16.20	16.71	16.60	16.20
Aug	16.17	16.65	16.50	16.07
Sep	16.17	16.60	16.50	16.25
Oct	16.20	16.55	16.50	16.20

HEATING OIL 42,000 US galls, cents/US galls

	Close	Previous	High/Low	
Jan	51.20	53.36	53.20	51.20
Feb	49.65	51.41	51.20	49.48
Mar	47.00	48.96	48.60	46.96
Apr	44.90	46.83	46.55	44.90
May	43.80	45.53	44.40	43.80
Jun	43.10	44.98	44.70	43.70
Jul	43.10	44.63	43.70	43.10
Aug	43.75	44.83	44.75	43.40
Sep	44.60	45.33	44.60	44.60

COFFEE "C" 37,500lbs; cents/lbs

	Close	Previous	High/Low	
Dec	123.85	123.63	124.00	123.30
Mar	127.61	127.44	128.20	127.21
May	129.80	129.80	130.20	129.25
Jul	131.95	132.00	132.00	131.60
Sep	134.13	134.13	134.15	134.15
Dec	135.50	135.00	135.50	135.50
Mar	135.50	135.50	0	0
May	138.70	137.00	0	0

SUGAR WORLD "11" 112,000 lbs; cents/lbs

	Close	Previous	High/Low	
Jan	7.95	7.62	7.77	7.77
Mar	8.28	8.04	8.35	8.10
May	8.34	8.08	8.33	8.10
Jul	8.25	8.09	8.40	8.15
Sep	8.29	8.12	8.40	8.15
Oct	8.34	8.25	8.40	8.15
Jan	8.34	8.25	0	0
Mar	8.54	8.40	8.63	8.45

COTTON 50,000; cents/lbs

	Close	Previous	High/Low	
Mar	63.86	63.35	64.40	62.95
May	64.71	64.19	65.10	63.90
Jul	64.90	64.41	65.25	64.21
Oct	62.78	62.57	62.50	62.00
Dec	61.82	61.40	62.10	61.42
Mar	62.05	62.42	0	0
May	62.85	0	0	0

ORANGE JUICE 15,000 lbs; cents/lbs

	Close	Previous	High/Low	
Jan	157.70	158.70	158.80	157.30
Mar	158.60	157.70	158.00	155.85
May	158.25	155.75	156.50	155.65
Jul	154.95	165.65	166.25	168.00
Sep	154.50	155.00	0	0
Nov	152.60	152.60	0	0
Jan	157.50	158.00	0	0
Mar	157.50	158.00	0	0
May	157.50	158.00	0	0

INDICES

REUTERS (Base: September 18 1931 = 100)				
	Dec 14	Dec 11	mnth ago	yr ago
	1687.8	1684.1	1700.5	1654.6
DOW JONES (Base: December 31 1974 = 100)				
Spot	132.86	132.30	132.83	117.18
Futures	134.31	134.40	134.47	116.09

Chicago

SOYABEANS 5,000 bu min; cents/60lb bushel

	Close	Previous	High/Low	
Jan	583/4	586/6	591/0	580/6
Mar	592/6	595/4	600/0	590/2
May	600/0	605/4	607/0	598/0
Jul	604/4	610/0	612/0	602/4
Aug	601/2	605/4	607/0	602/0
Sep	588/2	589/0	590/0	587/0
Nov	584/2	586/6	589/4	582/0
Jan	592/4	595/4	0	0
Mar	600/4	603/4	0	0

SOYABEAN OIL 60,000 lbs; cents/lb

	Close	Previous	High/Low	
Dec	19.26	19.12	19.40	19.10
Jan	19.28	19.15	19.42	19.13
Mar	19.60	19.57	19.85	19.48
May	19.92	19.89	20.15	19.80
Jul	20.07	20.08	20.30	19.99
Aug	20.00	20.00	20.35	20.00
Sep	19.95	19.90	20.20	19.95
Oct	19.95	19.80	20.00	19.95
Dec	20.10	20.02	20.25	20.05

SOYABEAN MEAL 100 tons; $/ton

	Close	Previous	High/Low	
Dec	205.5	208.4	208.5	205.1
Jan	195.4	199.1	199.0	195.0
Mar	186.9	189.2	189.5	186.5
May	182.5	185.3	185.5	182.0
Jul	180.1	182.1	183.0	180.0
Aug	180.0	182.0	181.0	180.0
Sep	180.0	181.5	180.5	180.0
Oct	177.7	179.0	179.1	177.5
Dec	178.2	179.7	179.0	177.5

MAIZE 5,000 bu min; cents/56lb bushel

	Close	Previous	High/Low	
Dec	184/4	187/6	187/0	184/2
Mar	189/4	191/4	191/0	188/6
May	193/2	195/4	195/6	193/0
Jul	195/2	198/2	198/0	195/0
Sep	196/4	200/0	199/6	196/0
Dec	199/6	203/0	203/2	199/6
Mar	207/4	209/4	210/0	207/4

WHEAT 5,000 bu min; cents/60lb bushel

	Close	Previous	High/Low	
Dec	304/0	310/6	311/0	304/0
Mar	313/4	318/4	315/4	312/0
May	307/0	310/6	310/2	306/2
Jul	293/2	295/0	295/2	292/4
Sep	297/4	300/0	300/0	297/4
Dec	306/0	310/0	307/4	305/4

LIVE CATTLE 40,000 lbs; cents/lbs

	Close	Previous	High/Low	
Dec	65.22	65.42	66.75	65.10
Feb	62.15	62.47	62.47	61.85
Apr	64.45	64.47	64.75	64.15
Jun	64.25	64.50	64.85	64.00
Aug	61.87	62.07	62.47	61.80
Oct	61.27	61.40	61.65	61.25
Dec	62.35	62.30	62.00	62.00

LIVE HOGS 30,000 lb; cents/lbs

	Close	Previous	High/Low	
Dec	45.82	46.07	46.15	45.55
Feb	41.85	42.27	43.80	43.15
Apr	38.80	38.62	38.85	38.40
Jun	41.77	42.25	42.80	41.50
Jul	42.65	42.90	42.95	42.60
Aug	41.50	41.90	41.80	41.50
Oct	38.30	38.70	38.80	38.40
Dec	39.30	39.20	39.40	39.20

PORK BELLIES 38,000 lbs; cents/lb

	Close	Previous	High/Low	
Feb	51.17	52.42	52.25	50.95
Mar	51.87	52.35	52.80	51.25
May	52.65	53.80	52.85	51.85
Jul	53.25	53.77	53.90	52.85

CURRENCIES, MONEY & CAPITAL MARKETS

FOREIGN EXCHANGES

Pound dips on lower oil prices

STERLING LOST ground in very thin trading yesterday. Sentiment was influenced by a fall in oil prices, following Opec's failure to curb over production. However it was extremely difficult to establish any real trend, mainly because most speculators had thrown in the towel and retired to the sidelines until the new year.

This left trading volume very thin which meant that a relatively modest order was sufficient to have a disproportionate effect on exchange rates.

The pound closed at $1.8310 down from $1.8365 and DM2.9875 compared with DM2.9950. It was also lower against the yen at Y233.50 from Y235.0. Elsewhere it finished at SFr2.4325 from SFr2.4375 and FFr10.12 compared with FFr10.1550. On Bank of England figures, the pound's exchange rate index fell to 75.8 from 76.0 at the opening and 76.1 on Monday.

The dollar recovered from record lows, touched during the morning, to finish virtually unchanged from Monday's close in London. Much of the late demand was due to end of year book squaring. "There is just no incentive to take a position one way or the other," one dealer claimed.

Earlier in the day sentiment had been influenced by suggestions that the US authorities were unlikely to take any action to support the dollar. This was seen as a political move to avoid introducing any measures which would risk being domestically unpopular, in the run up to next year's Presidential election.

Nevertheless, analysts remained adamant that the dollar would only stabilise if the US authorities sanctioned a sharp rise in US interest rates or took measures to reduce the budget and trade deficits.

There was little concern about the passing of today's deadline which should have seen an agreed package to the recently proposed cuts in the deficit. Most traders were convinced that, although the dollar stood a good chance of stabilising in the short term, its outlook for the new year remained distinctly gloomy.

The dollar closed at Y127.55 against the yen, down from Y127.95 on Monday but up from a record low of Y126.75 touched during the morning. It was unchanged against the D-Mark at DM1.6310, although this was a considerable improvement on the day's low of DM1.6220.

Elsewhere it finished at SFr1.3280 from SFr1.3275 and FFr5.5275 compared with FFr5.5300. On Bank of England figures, the dollar's exchange rate index rose to 93.5 from 93.3.

D-MARK-Trading range against the dollar in 1987 is 1.9305 to 1.6310. November average 1.6809. Exchange rate index 151.4 against 146.5 six months ago.

Late trading saw the dollar recover from the day's lows on late short covering. Some traders suggested that the dollar was oversold at this level. It was certainly very difficult to establish any meaningful trend, simply because most participants had left the market until the new year.

The dollar closed at DM1.6290 up from DM1.6235 on Monday.

Short term fluctuations were influenced by sterling's weaker trend to some extent. The latter tended to encourage a switch into D-Marks.

JAPANESE YEN-Trading range against the dollar in 1987 is 159.45 to 127.55. November average 135.90. Exchange rate index 238.8 against 220.6 six months ago.

Confidence in the dollar remained at a low in Tokyo. Intervention by the Bank of Japan, estimated at around $700m was insufficient to prevent the US unit from touching a record low, although it did recover to finish at Y126.95, up from a low of Y126.80, but still down from Y127.95 in New York and Y128.0 in Tokyo on Monday.

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu central rates	Currency amounts against Ecu Dec.15	% change from central rate	% change adjusted for divergence	Divergence limit %
Belgian Franc	42.4582	43.2000	+1.75	+0.95	±1.5344
Danish Krone	7.85212	7.95221	+1.27	+0.47	±1.5404
German D-Mark	2.05853	2.06333	+0.23	-0.57	±1.0981
French Franc	6.90403	6.99693	+1.35	+0.55	±1.3674
Dutch Guilder	2.31943	2.32246	+0.13	-0.67	±1.5012
Irish Punt	0.768411	0.775359	+0.90	+0.10	±1.6684
Italian Lira	1483.58	1521.35	+2.55	+2.20	±4.0752

Changes are for Ecu, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

£ IN NEW YORK

Dec 15	Latest	Previous Close
£ Spot	1.8345-1.8355	1.8445-1.8455
1 month	0.03pm-par	0.03pm-par
3 months	0.28-0.24pm	0.28-0.24pm
12 months	1.18-1.08pm	1.18-1.08pm

Forward premiums and discounts apply to the US dollar

POUND SPOT- FORWARD AGAINST THE POUND

Dec.15	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.8300-1.8450	1.8305-1.8315	0.02-0.04cdis	-0.20	0.19-0.15pm	0.37
Canada	2.3939-2.4071	2.3965-2.3975	0.05dis-0.04pm	0.23	par-0.12dis	-0.10
Netherlands	3.35½-3.37	3.35½-3.36½	1⅜-1cpm	4.24	3½-3pm	3.87
Belgium	62.40-62.76	62.55-62.65	8-10cdis	-1.73	26-24pm	-1.60
Denmark	11.49¾-11.57½	11.49¾-11.50¾	1¼-2¼oredis	-1.96	3¼-4¼dis	-1.35
Ireland	1.1185-1.1285	1.1225-1.1235	0.05-0.02pm	0.37	0.10-0.07pm	0.30
W. Germany	2.98¼-2.99½	2.98¾-2.99¾	1⅛-1pfpm	4.77	3½-3⅛pm	4.77
Portugal	243.24-245.68	243.30-244.30	75-150cdis	-5.54	275-415dis	-5.64
Spain	202.18-202.97	202.20-202.50	35-67cdis	-3.02	186-240dis	-4.21
Italy	2199¾-2209	2200¼-2201¼	5-8liredis	-3.54	16-20dis	-3.27
Norway	11.65¼-11.72½	11.65½-11.66½	6⅛-6¾oredis	-6.63	17¾-18⅛dis	-6.13
France	10.11½-10.15¾	10.11½-10.12½	¾-1⅝cdis	-1.19	1⅞-3¼dis	-0.96
Sweden	10.85¾-10.90	10.85¾-10.86¾	par-1¼oredis	-0.62	1½-3½dis	-0.86
Japan	233-234¼	233-234	1-⅝ypm	4.18	2⅝-2⅛pm	4.39
Austria	20.98-21.08	20.98-21.01	8¼-7gropm	4.36	22½-19⅝pm	4.01
Switzerland	2.42¾-2.43¾	2.42¾-2.43¾	1⅛-⅞cpm	4.62	3-2½pm	4.52

Belgian rate is convertible francs. Financial franc 62.75-62.85. Six-month forward dollar 0.65-0.60cpm 12 month 1.27-1.17pm

STERLING INDEX

	Dec 15	Previous
8.30 am	76.0	76.1
9.00 am	76.0	76.1
10.00 am	75.8	76.1
11.00 am	75.8	76.2
Noon	75.8	76.1
1.00 pm	75.8	76.1
2.00 pm	75.8	76.1
3.00 pm	75.8	76.1
4.00 pm	75.8	76.1

CURRENCY RATES

Dec 15	Bank rate %	Special Drawing Rights	European Currency Unit
Sterling	-	0.75569	0.690518
U.S Dollar	6½	1.3867	1.26779
Canadian $	8.75	*	1.65662
Austrian Sch.	3	15.89423	14.5251
Belgian Franc	7	47.25831	43.2000
Danish Krone	7½	8.70148	7.95221
Deutsche Mark	2½	2.2578	2.06333
Neth.Guilder	3¾	n/a	2.32246
French Franc	9½	7.6531	6.99693
Italian Lira	12½	n/a	1521.35
Japanese Yen	2½	177.22	161.390
Norway Krone	8	n/a	8.05871
Spanish Peseta	-	n/a	139.837
Swedish Krona	7½	n/a	7.50849
Swiss Franc	2½	n/a	1.67792
Greek Drach.	20½	n/a	163.976
Irish Punt	-	n/a	0.775359

C$/SDR rate for Dec 14 1.81486

DOLLAR SPOT- FORWARD AGAINST THE DOLLAR

December 15	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.8300-1.8450	1.8305-1.8315	0.02-0.04cdis	-0.20	0.19-0.15pm	0.37
Ireland†	1.6292-1.6358	1.6315-1.6325	0.02-0.06cdis	-0.29	0.16-0.06pm	0.27
Canada	1.3045-1.3075	1.3065-1.3075	0.04-0.01cpm	0.23	0.14-0.17dis	-0.47
Netherlands	1.8255-1.8365	1.8345-1.8355	0.70-0.65cpm	4.42	1.66-1.61pm	3.57
Belgium	34.00-34.25	34.15-34.25	7.00-4.00cpm	1.94	14.00-9.00pm	1.35
Denmark	6.25½-6.28½	6.28-6.28½	0.10-0.80oredis	-0.86	1.90-2.60dis	-1.44
W. Germany	1.6220-1.6325	1.6305-1.6315	0.70-0.67pfpm	5.05	1.87-1.82pm	4.53
Portugal	133-133¾	133¼-133½	50-85cdis	-6.08	175-235dis	-6.15
Spain	110.04-110.40	110.30-110.40	20-40cdis	-3.26	100-140dis	-4.35
Italy	1196-1205	1201¼-1202¼	3.00-4.00liredis	-3.50	9.00-12.00dis	-3.50
Norway	6.33½-6.37	6.36½-6.37	3.30-3.65oredis	-6.56	10.15-10.55dis	-6.51
France	5.50-5.53½	5.52½-5.53	0.50-0.70cdis	-1.30	1.70-2.00dis	-1.34
Sweden	5.90-5.93½	5.93-5.93½	0.20-0.35oredis	-0.56	1.50-1.90dis	-1.15
Japan	126.75-127.70	127.50-127.60	0.48-0.45ypm	4.39	1.24-1.19pm	3.82
Austria	11.42½-11.47½	11.47½-11.48	5.00-3.00gropm	4.19	12.00-9.00pm	3.66
Switzerland	1.3170-1.3275	1.3275-1.3285	0.55-0.50cpm	4.76	1.42-1.37pm	4.22

† UK and Ireland are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency. Belgian rate is for convertible francs. Financial franc 34.25-34.35.

CURRENCY MOVEMENTS

Dec 15	Bank of England Index	Morgan Guaranty Changes %
Sterling	75.8	-18.0
U.S Dollar	93.5	-12.7
Canadian Dollar	76.6	-10.6
Austrian Schilling	142.7	+18.9
Belgian Franc	101.5	-4.3
Danish Krone	94.6	+3.1
Deutsche Mark	151.4	+23.8
Swiss Franc	182.8	+26.9
Guilder	139.5	+15.9
French Franc	72.7	-13.0
Lira	[illegible]	[illegible]
Yen	[illegible]	[illegible]

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (Base Average 1975=100).

EURO-CURRENCY INTEREST RATES

Dec.15	Short term	7 Days notice	One Month	Three Months	Six Months	One Year
Sterling	8⅝-8⅜	8½-8⅜	8¾-8⅝	8⅞-8¾	9-8⅞	9¼-9⅛
US Dollar	6¾-6⅝	6⅞-6⅝	8⅝-8½	8¼-8⅛	8¼-8⅛	8½-8⅜
Can. Dollar	7⅝-7½	7⅝-7½	8¼-8⅛	8⅞-8⅝	9⅛-8⅞	9⅜-9¼
D. Guilder	4⅛-4⅛	4⅜-4¼	4⅞-4⅝	4⅞-4¾	4⅞-4⅝	4⅞-4⅝
Sw. Franc	⅝-⅜	⅜-⅛	4⅛-4⅛	4⅛-3⅞	4-3⅞	4-3⅞
Deutschmark	3-2⅞	3⅛-2⅞	4-3⅞	3⅞-3⅞	3⅞-3⅞	4⅛-3⅞
Fr. Franc	8⅞-8⅝	9⅛-8⅞	9⅞-9⅞	9⅞-9⅞	9⅞-9⅞	9⅞-9⅞
Italian Lire	11¼-9¼	12-10½	11⅞-11⅛	12⅛-11⅞	12⅛-11⅞	12⅞-12
B. Fr. (Fin)	6⅞-6⅝	6⅝-6⅛	6⅞-6⅝	7-6⅞	7⅛-7	7⅞-7⅛
B. Fr. (Con)	6½-6	6⅞-6⅝	7⅛-6⅞	7⅛-6⅞	7⅜-6⅞	7⅞-7
Yen	4-3⅞	4⅛-4⅛	4⅞-4⅞	4⅞-4⅛	4⅞-4⅞	4⅞-4⅞
Asian $Sing	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
D. Krone	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Long term Eurodollars: two years 8⅞-8⅝ per cent; three years 9⅛-9 per cent; four years 9⅜-9¼ per cent; five years 9⅝-9½ per cent nominal. Short term rates are call for US Dollars and Japanese Yen; others, two days' notice.

OTHER CURRENCIES

Dec.15	£	$
Korea(Sth)	1454.50-1467.60	791.90-798.30
Kuwait	0.50150-0.50200	0.27340-0.27350
Luxembourg	62.55-62.65	34.15-34.25
Malaysia	4.5535-4.5655	2.4830-2.4850
Mexico	4035.90-4129.85	2200.00-2250.00
N. Zealand	2.8415-2.8465	1.5475-1.5500
Saudi Ar.	6.8780-6.8840	3.7500-3.7410
Singapore	3.6705-3.6795	2.0020-2.0030
S. Af (Cm)	3.5590-3.5750	1.9960-1.9995
S. Af (Fn)	5.4780-5.6470	2.9850-3.0770
Taiwan	52.85-53.10	28.80-28.90
U.A.E.	6.7370-6.7430	3.6725-3.6735

*Selling rate

EXCHANGE CROSS RATES

Dec.15	£	$	DM	Yen	F Fr.	S Fr.
YEN	4.283	7.842	12.79	1000.	43.34	[illegible]
F Fr.	0.988	1.809	2.952	230.7	10.	[illegible]
S Fr.	0.411	0.753	1.228	95.99	4.160	[illegible]
H Fl.	0.298	0.545	0.889	69.49	3.012	[illegible]
Lira	0.454	0.832	1.357	106.1	4.598	[illegible]
C $	0.417	0.764	1.246	97.41	4.222	[illegible]
B Fr.	1.997	2.925	4.772	373.0	16.17	[illegible]

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100.

FINANCIAL FUTURES

Gilt futures fall ahead of tap

STERLING DENOMINATED contracts weakened in reasonably active futures trading on Liffe, while dollar contracts were firmer.

There were several factors behind the decline of long term gilts and three-month sterling futures. These included technical movements, including selling call options against the long gilt, in expectation of trading opportunities on the issue of today's 8 p.c. Treasury convertible 1990 tap stock.

March gilt futures opened higher at 117-17, but this was the day's high and the contract then fell to a low of 116-10 as sterling retreated on the foreign exchanges.

Suggestions that Opec will not stick to the compromise production quotas agreed at this week's meeting in Vienna put downward pressure on oil prices and the pound.

Evidence of continued strong growth in the UK economy also increased fears about inflationary pressure next year. A rise of 0.9 p.c. in October UK industrial production was towards the top end of forecasts, while manufacturing output was also seen as buoyant, rising 1.1 p.c.

An upward trend in London interest rates, partly for reasons associated with the tap, but also because of sterling's decline, added to the slide in gilts and short sterling futures. March gilts closed at 116-15, compared with 117-13 on Monday.

Three-month sterling for March delivery also opened higher at 91.24, and finished at the day's low of 91.01, against the previous settlement of 91.20.

US Treasury bond futures were bid up with the opening of trading in Chicago. This followed the fall in oil prices, leading to increased optimism about the prospects for US inflation. Gold's failure to consolidate above $500 also added to the better sentiment in bonds.

March delivery bonds closed just below the day's peak on Liffe, at 84-28, compared with 83-31 previously.

LIFFE LONG GILT FUTURES OPTIONS

Strike Price	Calls-Last Mar	Calls-Last Jun	Puts-Last Mar	Puts-Last Jun
116	2.26	3.36	1.60	3.20
118	1.32	2.42	3.02	4.26
120	0.55	1.60	4.25	5.44
122	0.32	1.24	6.02	7.08
124	0.18	0.61	7.52	8.45
126	0.10	0.41	9.44	10.25
128	0.06	0.27	11.40	12.11
130	0.03	0.17	13.37	14.01

Estimated volume total, Calls 2333 Puts 2136
Previous day's open int: Calls 26500 Puts 12577

LIFFE US TREASURY BOND FUTURES OPTIONS

Strike Price	Calls-Last Mar	Calls-Last Jun	Puts-Last Mar	Puts-Last Jun
82	4.04	4.20	1.12	2.26
84	2.44	3.24	1.52	3.22
86	1.47	2.32	2.55	4.30
88	1.00	1.52	4.08	5.50
90	0.36	1.18	5.44	7.16
92	0.23	0.56	7.31	8.54
94	0.12	0.38	9.20	10.36
96	0.06	-	11.14	-

Estimated volume total, Calls 100 Puts 63
Previous day's open int: Calls 870 Puts 711

LIFFE FT-SE 100 INDEX FUTURES OPTIONS

Strike Price	Calls-Last Dec	Calls-Last Jan	Puts-Last Dec	Puts-Last Jan
15000	18.26	21.57	0.01	0.57
15250	15.77	—	0.02	—
15500	16.32	18.18	0.07	1.18
15750	19.92	—	0.17	—
16000	—	—	—	—
16250	6.55	—	0.80	—
16500	4.72	9.77	1.47	3.77
16750	3.22	—	2.47	—

Estimated volume total, Calls 2 Puts 3
Previous day's open int: Calls 49 Puts 147

LIFFE £/$ OPTIONS

£25,000 (cents per £1)

[illegible]

LONDON SE £/$ OPTIONS

£12,500 (cents per £1)

[illegible]

PHILADELPHIA SE £/$ OPTIONS

£12,500 (cents per £1)

[illegible]

LIFFE—EURODOLLAR

$1m points of 100%

[illegible]

LONDON

20-YEAR 12% NOTIONAL GILT £50,000 32nds of 100%

[illegible]

6% NOTIONAL LONG TERM JAPANESE GOVT. BOND Y100m 100ths of 100%

[illegible]

THREE MONTH STERLING £500,000 points of 100%

[illegible]

U.S. TREASURY BONDS 8% $100,000 32nds of 100%

[illegible]

FT-SE 100 INDEX £25 per full index point

[illegible]

THREE MONTH EURODOLLAR $1m points of 100%

[illegible]

CURRENCY FUTURES

POUND-$ (FOREIGN EXCHANGE)

[illegible]

IMM-STERLING $e per £

[illegible]

LIFFE-STERLING £25,000 $ per £

[illegible]

CHICAGO

U.S. TREASURY BONDS (CBT) 8% $100,000 32nds of 100%

[illegible]

U.S. TREASURY BILLS (IMM) $1m points of 100%

[illegible]

SWISS FRANC (IMM) SFr 125,000 $ per SFr

[illegible]

JAPANESE YEN (IMM) Y12.5m $ per Y100

[illegible]

DEUTSCHE MARK (IMM) DM125,000 $ per DM

[illegible]

THREE-MONTH EURODOLLAR (IMM) $1m points of 100%

[illegible]

STANDARD & POORS 500 INDEX $500 times index

[illegible]

MONEY MARKETS

London rates rise

INTEREST RATES rose on the London money market yesterday, as sterling fell back against the D-Mark, and traders set up arbitrage positions ahead of today's convertible gilt tap stock issue.

Three-month interbank rose to 8¾-8⅝ p.c. from 8⅝-8⁹⁄₁₆ p.c. and there was reported to be strong bidding for 12-month money, which climbed to 9⁵⁄₁₆-9³⁄₁₆ p.c. from 9³⁄₁₆-9¹⁄₁₆ p.c. An increase in rates followed a fall in oil prices after this week's Opec meeting, which has put downward pressure on the pound.

It was suggested however that yesterday's trend may prove temporary, and that sterling should not be regarded too much as a petrocurrency. In future months the deflationary impact of lower oil prices will help offset strong UK growth, illustrated by yesterday's industrial production figures for October.

Borrowing to set up positions in preparation for today's gilt tender may have also contributed to the general upward move in rates.

UK clearing bank base lending rate 8½ per cent from December 4

The Bank of England initially forecast a money market shortage of £550m, but revised this to £500m in the afternoon. Total help of £603m was provided.

Before lunch the authorities bought £187m bills outright, by way of £143m bank bills in band 1 at 8⅜ p.c. and £44m bank bills in band 2 at 8⅜ p.c.

In the afternoon £191m bills were purchased outright, through £131m bank bills in band 1 at 8⅜ p.c.; £1m local authority bills in band 2 at 8⅜ p.c.; and £59m bank bills in band 2 at 8⅜ p.c.

Late assistance of £225m was also provided.

Bills maturing in official hands, repayment of late assistance and a take-up of Treasury bills drained £168m, with Exchequer transactions absorbing £370m and a rise in the note circulation £175m. These outweighed bank balances above target of £165m.

In Frankfurt the money market expects a drain on liquidity by the end of the week, but remained very comfortably placed yesterday. Call money fell to 2.95 p.c. from 3.05 p.c., with banks generally reluctant to take up the Bundesbank's offer of three-day Treasury bills at 3 p.c., for fear of tying up funds as money becomes much tighter later in the week.

In Amsterdam the Dutch Central Bank accepted bids of Fl 4.4bn at an unchanged 4.5 p.c. at a tender for six-day special advances. This follows a five-day period when the market received no additional aid from the authorities, because the shortage was covered by the normal credit quota.

FT LONDON INTERBANK FIXING

(11.00 a.m. Dec.15) 3 months US dollars | 6 months US Dollars

[illegible]

The fixing rates are the arithmetic means rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted by the market to five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque Nationale de Paris and Morgan Guaranty Trust.

MONEY RATES

NEW YORK (Lunchtime)

Prime rate; Broker loan rate; Fed.funds; Fed.funds at intervention — Treasury Bills and Bonds: One month, Two month, Three month, Six month, One year, Two year, Three year, Four year, Five year, Seven year, 10-year, 30-year

[illegible]

Dec.15	Overnight	One Month	Two Months	Three Months	Six Months	Lombard Intervention
Frankfurt	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Paris	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Zurich	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Amsterdam	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Tokyo	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Milan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Brussels	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dublin	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

LONDON MONEY RATES

December 15	Overnight	7 days notice	One Month	Three Months	Six Months	One Year
Interbank Offer	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Interbank Bid	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sterling CDs	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Local Authority Deps.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Local Authority Bonds	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Discount Mkt Deps	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Company Deposits	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Finance House Deposits	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Treasury Bills (Buy)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Bank Bills (Buy)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Fine Trade Bills (Buy)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dollar CDs	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
SDR Linked Dep Offer	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
SDR Linked Dep Bid	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
ECU Linked Dep Offer	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
ECU Linked Dep Bid	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

[illegible]

EUROPEAN OPTIONS EXCHANGE

Series		Feb.88 Vol	Feb.88 Last	May.88 Vol	May.88 Last	Aug.88 Vol	Aug.88 Last	Stock
GOLD C	$ 500	31	17.50	49	33	-	-	$ 493
GOLD C	$ 520	64	10	10	23.80 A	10	32.50	$ 493
GOLD C	$ 540	269	5	22	15.50	3	27	$ 493
GOLD P	$ 460	-	-	50	8	-	-	$ 493
GOLD P	$ 500	-	-	25	23	-	-	$ 493
		Dec. 87		Jan. 88		Feb. 88		
EOE Index C	Fl. 155	24	18.50	25	20 B	-	-	Fl. 172.23
EOE Index C	Fl. 160	59	12	8	17	5	19 B	Fl. 172.23
EOE Index C	Fl. 165	293	8.30	12	13.10	-	-	Fl. 172.23
EOE Index C	Fl. 170	193	4.70	94	10.50	20	15	Fl. 172.23
EOE Index C	Fl. 175	89	2.70 B	28	8.50	-	-	Fl. 172.23
EOE Index C	Fl. 180	474	1.50	74	6.80	3	10.50	Fl. 172.23
EOE Index C	Fl. 185	114	0.60	57	4.60	-	-	Fl. 172.23
EOE Index C	Fl. 190	20	0.10	35	3	-	-	Fl. 172.23
EOE Index C	Fl. 200	-	-	39	1.50	-	-	Fl. 172.23
EOE Index P	Fl. 155	106	0.50	62	2.90	26	6	Fl. 172.23
EOE Index P	Fl. 160	39	0.50	106	4.20	-	-	Fl. 172.23
EOE Index P	Fl. 165	152	0.90	127	5.80	5	10	Fl. 172.23
EOE Index P	Fl. 170	530	2 B	106	7	4	12.50	Fl. 172.23
EOE Index P	Fl. 175	25	4.80	-	-	-	-	Fl. 172.23
EOE Index P	Fl. 180	48	8.50 A	67	14	-	-	Fl. 172.23
EOE Index P	Fl. 185	52	12.50	-	-	-	-	Fl. 172.23
EOE Index P	Fl. 220	-	-	37	50	-	-	Fl. 172.23
S/Fl C	Fl. 185	283	0.40	-	-	-	-	Fl. 183.45
S/Fl P	Fl. 175	-	-	25	1 A	-	-	Fl. 183.45
S/Fl P	Fl. 180	52	0.10	40	1.60	65	3.50	Fl. 183.45
S/Fl P	Fl. 185	95	1.60	158	3.60	-	-	Fl. 183.45
S/Fl P	Fl. 190	62	6.30	162	7.70	-	-	Fl. 183.45
S/Fl P	Fl. 195	31	11.50	-	-	-	-	Fl. 183.45
S/Fl P	Fl. 200	50	16.50	-	-	-	-	Fl. 183.45
S/Fl P	Fl. 205	35	22	28	22	-	-	Fl. 183.45
		Jan. 88		Apr. 88		Jul. 88		
ABN C	Fl. 46	200	0.20	250	1.20	-	-	Fl. 38.70
ABN P	Fl. 46	58	7.90	90	8.30	-	-	Fl. 38.70
AEGON C	Fl. 60	13	1.10	88	3.60	-	-	Fl. 56.70
AEGON P	Fl. 65	-	-	5	10.30	25	11.50 A	Fl. 56.70
AKZO C	Fl. 90	277	4.80	76	10.50	86	11.50	Fl. 90.40
AKZO P	Fl. 100	146	12	-	-	4	18.50	Fl. 90.40
AMEV C	Fl. 40	40	1	30	3	20	4.30	Fl. 38
AMEV P	Fl. 40	-	-	100	4.50	-	-	Fl. 38
AMRO C	Fl. 60	49	1	20	3.20 A	20	4	Fl. 56.30
ELSEVIER C	Fl. 50	67	1.40	478	3.50	39	4.30	Fl. 43.80
ELSEVIER P	Fl. 40	32	1.40	16	2.90	9	5.20	Fl. 43.80
GIST-BROC. C	Fl. 30	20	0.60 A	72	1.50	-	-	Fl. 24.30
GIST-BROC. P	Fl. 25	-	-	15	3.50	60	5.20	Fl. 24.30
HEINEKEN C	Fl. 140	39	2.30	112	6	2	9.50	Fl. 125
HEINEKEN P	Fl. 110	41	2.40	1	6.40 A	-	-	Fl. 125
HOOGOVENS C	Fl. 30	103	1.20	14	2.80 B	15	3.70	Fl. 27.70
KLM C	Fl. 38	197	0.80	184	2.70	24	4	Fl. 27.80
KLM P	Fl. 30	61	3.70	2	4.50	-	-	Fl. 27.80
NEDLLOYD C	Fl. 130	132	15.50	25	22	-	-	Fl. 141.50
NEDLLOYD P	Fl. 100	1	0.90	68	3	2	5.50 A	Fl. 141.50
NAT.NED. C	Fl. 50	87	1.10	75	2.90	10	4.20	Fl. 46.40
PHILIPS C	Fl. 35	120	0.40	150	1.40	62	2.20 B	Fl. 29.60
PHILIPS P	Fl. 40	142	10.50 A	65	11.20	27	12 A	Fl. 29.60
ROYAL DUTCH C	Fl. 200	281	3.10	30	10.40	2	13.50	Fl. 193.70
ROYAL DUTCH P	Fl. 190	41	4	14	9	1	14.50	Fl. 193.70
UNILEVER C	Fl. 120	20	1	376	5	10	7.50	Fl. 104.10
UNILEVER P	Fl. 100	154	3.10	47	8.60	21	11.10	Fl. 104.10

TOTAL VOLUME IN CONTRACTS : 22,296

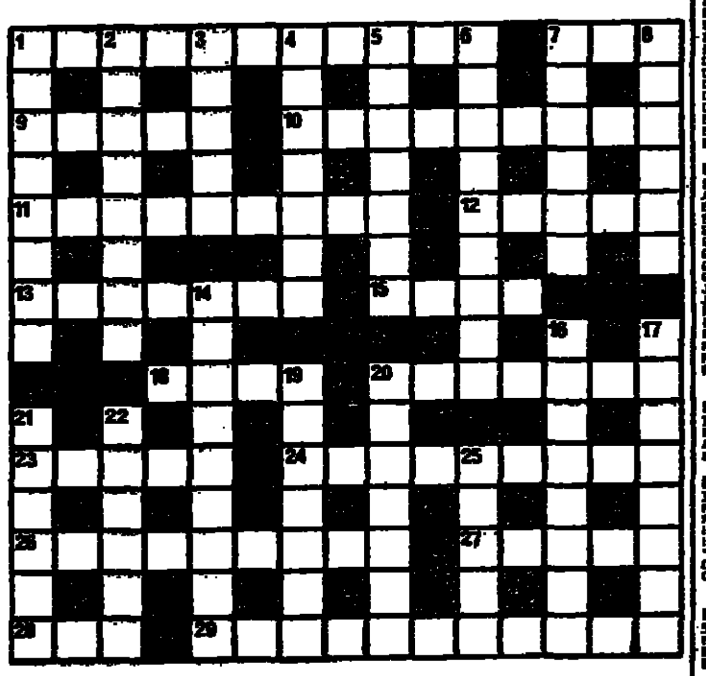
A=Ask B=Bid C=Call P=Put

BASE LENDING RATES

	%		%		%
ABN Bank	8½	● Charterhouse Bank	8½	Nat Bk. of Kuwait	8½
Adam & Company	8½	Citibank NA	8½	NatWestminster	8½
Allied Arab Bk	9	City Merchants Bank	8½	Northern Bank Ltd	8½
Allied Dunbar & Co	8½	Clydesdale Bank	8½	Norwich Gen. Trust	8½
Allied Irish Bank	8½	Comm.Bk.N.East	8½	PK Finans. Int'l(UK)	9
American Exp.Bk	8½	Consolidated Cred	8½	Provincial Trust Ltd	9½
Amro Bank	8½	Co-operative Bank	*8½	R. Raphael & Sons	8½
Henry Ansbacher	8½	Cyprus Popular Bk	8½	Roxburghe Guarantee	10½
ANZ Banking Group	8½	Duncan Lawrie	8½	Royal Bk of Scotland	8½
Associates Cap Corp	10	Equat'l Tst Co plc	9	Royal Trust Bank	8½
Authority Bank	8½	Exeter Trust Ltd	9	Smith & Williamson Secs.	8½
Banco de Bilbao	8½	Financial & Gen. Sec	9	Standard Chartered	8½
Bank Hapoalim	8½	First Nat. Fin. Corp	10	TSB	8½
Bank Leumi (UK)	8½	First Nat. Sec. Ltd	10	UDT Mortgage Exp	‡10.2
Bank Credit & Comm	8½	● Robert Fleming & Co	8½	United Bk of Kuwait	8½
Bank of Cyprus	9	Robert Fraser & Ptrs.	9½	United Mizrahi Bank	8½
Bank of Ireland	8½	Girobank	8½	Unity Trust Bank Plc	8½
Bank of India	8½	Grindlays Bank	8½	Western Trust	8½
Bank of Scotland	8½	● Guinness Mahon	8½	Westpac Bank Corp.	8½
Banque Belge Ltd	8½	HFC Trust & Savings	8½	Whiteaway Laidlaw	9
Barclays Bank	8½	● Hambros Bank	8½	Yorkshire Bank	8½
Benchmark Tst Ltd	8½	Heritable & Gen Inv Bk.	8½		
Beneficial Trust Ltd	10	● Hill Samuel	§8½		
Berliner Bank AG	8½	C. Hoare & Co.	8½		
Brit Bk of Mid East	8½	Hongkong & Shangh	8½		
Brown Shipley	8½	Lloyds Bank	8½		
Business Mtge Tst	9	Meghraj Bank Ltd	8½		
CL Bank Nederland	8½	Midland Bank	8½		
Central Capital	8½	● Morgan Grenfell	8½		
Cayzer Ltd	8½	Mount Cdt Cpn Ltd	8½		

● Members of the Accepting Houses Committee. * 7 day deposits 3.50% Savewise 6.16%. Top Tier-£2,500+ at 3 months' notice 7.81%. At call when £10,000+ remains deposited. ‡ Mortgage base rate. § Demand deposit 3.49%. Mortgage 10% - 10.25%

FT CROSSWORD No.6,509
SET BY DANTE



ACROSS
1 Fearfully rigid? (6,5)
7 Used to be put about as a *maxim* (3)
9 Extremely low-scoring shot (5)
10 A bitter draught for assembled Argonauts (9)
11 Moroccan growth of Argentine origin (9)
12 Famous composer? Hear, hear (5)
13 Energy surrounding volcano in Asian land (7)
15 Machine-gun nest blown up (4)
18 Clap this rubbish (4)
20 Make-up helps mother hide a blemish (7)
23 Take advantage of a sailor needing employment (5)
24 Disapprove? Blow it! (9)
26 I grasp one form of foreign capital (9)
27 Talent shown by a number in entertainment (5)
28 Land agreement (3)
29 Uncalled for correspondence (4,7)

DOWN
1 Unusual for vipers to be so frolicsome! (8)
2 Came : with servants? (8)
3 Mysterious point I have gone into before (5)
4 Arrangement to admit us into the sports ground (7)
5 Entrance signs switched round about (7)
6 US rifle is adapted for infantrymen (9)
7 Put down for an indoor game (6)
8 I am in a rage it appears (6)
14 Her charges are usually small (9)
16 Deportment of unusual air and grace (8)
17 Henry measures the rigging (8)
19 Walk between the plants (7)
20 Wrong way to give people a hand (7)
21 Fruit is planted in wet weather (6)
22 Vessel in plot set on fire (6)
25 To live well is right (5)

Solution to Puzzle No.6,508

K	E	Y	B	O	A	R	D		L	E	A	V	E	S
E		A		L		A				N		A		U
E	X	P	E	D	I	T	E		S	C	O	L	D	S
P		P		E		T		T		H		I		P
E	T	E	R	N	A	L	L	Y		A	D	D	L	E
R		D				E		R		N		A		N
			M	A	I	D		E	S	T	A	T	E	S
S		D		U						E		E		E
T	R	E	S	T	L	E		J	A	D	E			
R		N		H		X		U				S		S
O	U	T	D	O		I	M	P	A	T	I	E	N	T
L		U		R		T		I		U		V		A
L	A	R	D	E	R		S	T	U	R	G	E	O	N
E		E		S				E		N		R		C
D	E	S	I	S	T		P	R	E	S	E	N	C	E

FT UNIT TRUST INFORMATION SERVICE

AUTHORISED UNIT TRUSTS

FT UNIT TRUST INFORMATION SERVICE

INSURANCES

Continued on next page

FT UNIT TRUST INFORMATION SERVICE

Phoenix Assurance Co Ltd
Phoenix House, Redcliff Hill, Bristol 0272 294941
Life Assurance Funds

Wealth Assur.	349.3	367.8	—	-
Eb'r Ph. Eq.	304.1	323.2	—	-
Pension Plan Funds				
Phoenix				
UK Equity Acc.	150.1	158.0	+2.1	-
International Acc.	113.8	119.7	+1.0	-
Property Acc.	120.3	126.6	—	-
Fixed Interest Acc.	146.3	154.0	+0.1	-
Money Acc.	133.4	140.4	+0.1	-
Bldg. Soc. Linl Acc.	131.2	138.1	—	-
Special Mngd. Acc.O	134.6	141.6	+1.3	-
Phoenix/Framlington				
Intnl. Growth Acc.	71.7	75.4	+0.3	-
Amer. & Gen. Acc.	64.6	67.9	+0.5	-
Capital Tst. Acc.	156.0	164.2	+1.2	-
Japan & Gen Acc.	153.3	161.3	+0.7	-
American Turn. Acc.	64.4	67.7	+0.5	-
Recovery Tst. Acc.	140.2	147.5	+1.5	-
Special Mngd Acc.	123.5	129.9	+0.7	-
Phoenix/GT				
International Acc.	107.4	113.0	+0.2	-
US & General Acc.	78.6	82.7	+0.5	-
Amer Spec Sits Acc.	54.1	56.9	+0.8	-
Japan & General Acc.	150.4	158.3	—	-
Far East & Gen. Acc.	124.1	130.6	-0.2	-
UK Capital Acc.	148.2	155.9	+1.8	-
European Acc.	119.6	125.8	-0.9	-
Special Mngd. Acc.	111.2	117.0	+0.4	-

Prudential Assurance Co
Holborn Bars, London EC1N 2NH 01-405 9222
Prufund

Managed Dec 09	182.6	190.3	—	-

Prudential Holborn Life Ltd
Portland Hse, Stag Place, Ldn SW1E 5BH 01-630 1661

Managed Fd.	408.4	429.9	+5.0	-
Equity Fd.	807.1	849.6	—	-
Intnl. Fd.	286.9	302.0	+1.0	-
Fixed Int. Fd.	347.7	366.0	+0.6	-
Prop. Fd.	296.1	311.7	—	-
Cash Fd.	231.8	244.0	—	-
Pacific Basin Fd.	157.3	165.6	+1.5	-
North American Fd.	111.6	117.5	+4.1	-
European Fd.	134.7	141.8	+3.6	-
Holborn Balanced Gwth Fd	-	-	—	-
Holborn Strategic Gwth Fd	-	-	—	-

Prudential Holborn Pensions Ltd
Portland Hse, Stag Place, Ldn SW1E 5BH 01-630 1661

Managed	429.3	457.9	+4.3	-
Equity	602.8	634.6	+8.2	-
Global Equity	171.4	180.5	—	-
Fixed Interest	349.1	367.5	-0.4	-
Property	297.0	312.7	—	-
Cash	135.6	142.8	—	-
Index Linked Gilt	156.3	164.6	-2.0	-
Guaranteed	9.25	10.25	—	-
International Money	183.8	193.5	+0.2	-
North American Fd	50.2	52.9	—	-
Japanese Fund	98.19	103.3	—	-
European Fund	68.5	72.2	—	-
Special Situations Fd.	79.2	83.4	—	-
Communications Fund	68.4	72.0	—	-
Smaller Cos Fund	81.7	86.0	—	-

Pioneer Mutual Insurance Co Ltd
16 Crosby Rd. N. Waterloo, Liverpool 051-928 6655

Managed Fund	248.6	261.7	—	-
Man Pens Inc & Cap Fds.	313.8	330.4	—	-
Money Fund	110.3	116.2	—	-
Pens. Mngd Fd (Init)	73.9	77.8	—	-
Pens Mngd Fd (Acc)	81.9	86.3	—	-
Pens FT30 Fd (Init)	116.8	123.0	—	-
Pens FT30 Fd (Acc)	129.5	136.4	—	-
Pens O'seas MgFd(Init)	44.9	47.3	—	-
Pens O'seas MgFd(Acc)	49.8	52.5	—	-
Pens Fxd Int. Fd (Init)	105.3	110.9	—	-

MANAGEMENT SERVICES

OFFSHORE AND OVERSEAS

FT UNIT TRUST INFORMATION SERVICE

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

Five to Fifteen Years

Over Fifteen Years

BRITISH FUNDS — Contd

Undated

Index-Linked

INT. BANK AND O'SEAS GOVT STERLING ISSUES

CORPORATION LOANS

COMMONWEALTH & AFRICAN LOANS

LOANS

Public Board and Ind.

Financial

FOREIGN BONDS & RAILS

AMERICANS

Continued on next page

Money Market Trust Funds

Money Market Bank Accounts

UNIT TRUST NOTES

LONDON SHARE SERVICE

AMERICANS – Contd

1987 High	Low	Stock	Price £	+ or –	Div Gross	C'vr	Y'ld Gr's
39	21 1/2	Rep NY Corpn $5	21 5/8xd	–1/8	$1.16	–	2.9
18 3/4	8 3/4	Rockwell Intl. $1	9 7/8	+3/8	66c	–	3.7
30 1/2	16 1/4	Sara Lee $1(1/3)	18 1/2xd	–1/2	$1.00	–	3.0
11 1/2	8 1/2	Saul (B. F.) $1	8 7/8	+1/8	20c	–	1.2
27 1/2	21 1/4	Southwestern Bell $1	18 1/2	+1/4	h$2.32	–	6.9
22 1/4	994p	Staley Continental	10 5/8	+1/8	80c	–	4.1
44 1/2	21 5/8	Sun Co. Inc. $1	27 3/8	–5/8	$3.00	–	6.0
42 1/4	22 1/4	TRW Inc. $0.625	24 1/2xd	+1/2	h$1.60	–	3.6
37 1/4	21 1/2	Tenneco $5	22 3/4xd		$3.04	–	7.4
220	149 1/2	Do. 10pcLn.Stk. 91-5	155xd		10%	–	f4.7
29 3/4	15 7/8	Texaco $6.25	19 3/8xd	+1/4	$3.00	–	8.5
74 1/2	36 1/2	Time Inc. $1	43 1/2xd	+1 1/2	$1.00	–	1.3
20 1/4	11	Tracor $0.33(1/3)	17 1/8xd		40c	–	1.3
30 1/4	15 1/2	Transamerica $1	15 3/4xd	–1/4	$1.84	–	6.4
14 3/4	1 1/4	Transworld Corp $5	845p	–5	20c	–	1.3
27 1/4	12 1/4	TRINOVA Corp.	17	+1/4	56c	–	1.8
24 1/2	12 5/8	♦USX $1	16 3/4	+1/2	$1.20	–	3.9
37 1/4	16 1/2	Utd. Technologies	17 7/8xd	+3/8	$1.40	–	4.3
38 3/4	25 7/8	US West‡	26 7/8	+1	$3.28	–	6.7
30 1/2	17 1/4	Waste Management $1	19 1/2xd	+1/4	–	–	–
31 1/2	11 5/8	Whirlpool $1.0	12 1/2	+1/4	–	–	–
37 1/4	16 1/2	♦Woolworth $3 1/2	17 7/8	+1/8	$1.32	–	4.0

CANADIANS

1987 High	Low	Stock	Price	+ or –	Div Net	C'vr	Y'ld Gr's
691p	227p	ABM Gold Corp ‡	311p			–	–
26 1/2p	10p	♦Abbot Energy Corp.	16 1/2		–	–	–
[illegible]							

BANKS, HP & LEASING

[illegible]

Hire Purchase, Leasing, etc.

[illegible]

BEERS, WINES & SPIRITS

[illegible]

BUILDING, TIMBER, ROADS

[illegible]

BUILDING, TIMBER, ROADS – Contd

[illegible]

CHEMICALS, PLASTICS

[illegible]

DRAPERY AND STORES

[illegible]

DRAPERY AND STORES – Contd

[illegible]

ELECTRICALS

[illegible]

ENGINEERING

[illegible]

ENGINEERING – Contd

[illegible]

FOOD, GROCERIES, ETC

[illegible]

HOTELS AND CATERERS

[illegible]

INDUSTRIALS (Miscel.)

[illegible]

INDUSTRIALS (Miscel.) – Contd

[illegible]

INDUSTRIALS (Miscel.) – Contd.

[illegible]

INSURANCES

[illegible]

LONDON SHARE SERVICE

INSURANCES — Contd

1987 High	Low	Stock	Price	+ or –	Div Net	C'vr	Y'ld Gr's	P/E
516	300	Pearl Group 5p	342	+2	†10.5	–	4.2	–
£11¼	738	Prudential	883	+2	†29.0	–	4.9	–
598	350	Refuge 5p	403	+13	15.75	–	5.4	–
595	345	Royal	386	+6	†‡15.5	–	5.5	–
120	75	Saltire Ins. Invs.	75	–5	–	–	–	–
*345	168	Sedgwick Group 10p	205	+2	12.0	1.7	8.2	8.7
339	138	Steel Burrill J. 10p	138		†9.0	2.0	8.9	7.7
612	303	Sturge Hldgs 20p	320	+5	†16.0	2.5	2.6	21.0
£12⅞	645	Sun Alliance	818	+16	†23.5	–	4.0	–
£13	865	Sun Life 5p	908	+15	†28.5	–	4.5	–
£69⅝	£36¼	▼Taisho M EDR	£40½	–⅛	Q10%	–	0.9	–
£22¾	£12⅝	Torchmark $1.00	£12⅝	+⅜	Q$1.00	–	4.5	–
410	235	Trade Indemnity	387		†4.3	–	1.6	–
£34	£17⅞	Travelers $1.25	£18½	+⅜	$2.28	–	6.9	–
£30¼	£16	USF & G Corp $2.50	£16		Q$2.48	–	8.5	–
£33⅝	£15½	USLIFE Corp. $1.0	£16	+⅜	Q$1.28	3.2	4.4	7.1
738	555	‡Util Friendly B 10p	570		21.0	–	5.0	–
464	192	Willis Faber 12½p	213	+10	†10.75	2.4	6.9	8.1
128	41	Windsor Secs. 10p	59	–2	†0.7	1.5	1.6	–

LEISURE

1987 High	Low	Stock	Price	+ or –	Div Net	C'vr	Y'ld Gr's	P/E
35½	10	‡A & M Group 10p	14		–	–	–	–
242	77	Airtours 10p	77	–3	L45.4	♦	10.2	♦
*549	253	Anglia TV	294	+4	†q11.25	3.3	5.2	8.2
194	77	‡Aspinall Hldgs. 10p	160		‡6.0	1.2	5.1	21.9
141	62	‡Avesco 1p	71	+1	0.5	6.7	1.0	20.1
72	40	‡BBCE Hldgs 5p	47		L40.0	♦	2.9	♦
300	132	Barr & W.A.T. 'A'	185		†8.0	1.4	5.9	15.1
58	22	Bond Media	24		–	–	–	–
235	165	Boosey & Hawkes	170		–	–	–	–
83	28	‡Border T.V.	42	–2	1.4	♦	4.4	♦

MOTORS, AIRCRAFT TRADES

Commercial Vehicles

Components

Garages and Distributors

NEWSPAPERS, PUBLISHERS

PAPER, PRINTING, ADVERTISING

PAPER, PRINTING, ADVERTISING — Contd

PROPERTY

SHIPPING

SHOES AND LEATHER

SOUTH AFRICANS

TEXTILES

TEXTILES — Contd

TOBACCOS

TRUSTS, FINANCE, LAND

Investment Trusts

TRUSTS, FINANCE, LAND — Contd

Finance, Land, etc

OIL AND GAS

OIL AND GAS — Contd

OVERSEAS TRADERS

PLANTATIONS

Rubbers, Palm Oil

Teas

MINES

Eastern Rand

Far West Rand

O.F.S.

Diamond and Platinum

Central African

Finance

Australians

MINES — Contd

Tins

Miscellaneous

THIRD MARKET

NOTES

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

IRISH

TRADITIONAL OPTIONS

3-month call rates

Industrials

Property

A selection of Options traded is given on the London Stock Exchange Report Page

LONDON STOCK EXCHANGE

Leading shares back off from best levels after latest economic statistics

Account Dealing Dates

Option First Dealings	Declarations	Last Dealings	Account Day
Dec 7	Dec 17	Dec 18	Jan 4
Dec 21	Jan 7	Jan 8	Jan 18
Jan 11	Jan 21	Jan 22	Feb 1

"New time dealings may take place from 9.00 am two business days earlier.

A TOUCH of the festive season was bequeathed to the UK equity market yesterday through the courtesy of Wall Street which overnight recorded its best rise for some weeks. International stocks and other blue chips moved sharply higher from the opening and London traders were soon nursing hopes of the market maintaining the forward momentum until the Christmas break. By 10.45 am the FT-SE 100 share index was 28.6 up at 1681.2.

Renewed corporate raiding activity inspired further confidence with the spotlight temporarily diverted from the Oil and energy sector to Properties. The former continued to attract considerable business awaiting further developments, expected today, in the intriguing **Britoil** situation.

All was going well until the late-morning announcement of the industrial production figures for October. These exceeded the best estimates with manufacturing output showing a rise of 1.1 per cent and industrial production up by 0.9 per cent. But shortly afterwards the market began to backtrack as fears revived of the economy overheating.

Interest started to fade and so did the rise in the "Footsie" index - finally 17.4 higher at 1670.0 - although selected stocks continued to warrant attention after a slightesing in the rate of exchange. Sterling drifted lower on thoughts that the Opec pledge to cut production was a compromise agreement which would be unlikely to stop crude oil prices falling.

Analysts were more hopeful of Federal Reserve Board officials mapping out a monetary policy at yesterday's meeting that would nudge the US authorities into taking positive action over the dollar.

The UK investment institutions continued to maintain a low profile. Most preferred to remain liquid but one large investor spent some £62.5m, buying a 12.2 per cent stake in property group **Great Portland Estates**. For many years the company has been regarded as a prime takeover target.

Ruminating on a day which failed to live up to its early promise a leading trader said " this is a shooting gallery at the moment with cash-rich corporate raiders pouncing on the market for their prizes". In the current environment, marketmakers are running their trading books at less than half of the pre-crash levels so a sizeable purchase inevitably touches off a chain-reaction in the share price.

UK Government stocks went firmer initially on the prospect of lower oil prices but domestic retail demand was soon satisfied and prices came back. A bout of selling preceded the latest industrial production numbers, announced at 11.30 am, and following the revived doubts over the economy the market gave fresh ground.

Although both short and longer-dated bonds edged away from the lowest levels, unfashionable medium-life stocks still closed with losses stretching to half a point. Index-linked also suffered further as investors switched funds to conventional Gilts, and selected issues ended ¾ down on the session.

Early indications suggest there will be some retail interest for the new tap stock, Treasury 8 per cent Convertible 1990. Tenders for the £1bn issue must be submitted by 10 am this morning at a minimum tender price of £98, payable £50 per cent on tender.

The takeover battle to win control of **Britoil**, the stake-building operations in BP and Tricentrol, the OPEC news and numerous takeover rumours elsewhere in the sector kept oil and gas issues well out in front of the rest of the equity sector.

But **Britoil** held pride of place as the most intriguing situation. The shares raced up 21 more to 392p on a turnover of more than 22m with dealers confident that a bid of more than 450p - one source was hopeful that the bid will be in the region of 580p - is imminent.

BP were favourites to launch the first full bid for Britoil, after 9.30 am today when the 300p a share tender offer expires. But there were numerous stories circulating that a full offer from Atlantic Richfield is on the cards after the Takeover Panel's rejection of Arco's attempt to buy up to 49.9 per cent of Britoil. Talk of a full bid from a US oil company was additionally fuelled by heavy and persistent buying of Britoil by securities house Salomon Brothers which were believed to have bought upwards of 10m shares.

British Gas, long rumoured to be interested in acquiring Britoil, were thought to have faded out of the running.

BP "new" shares attracted a huge turnover of over 184m shares - traders said the Kuwait Investment Office were well within sight of completing their mammoth task of acquiring a 15 per cent stake in BP. Much of the activity in BP new was transacted through the traditional methods, as opposed to the Inter-broker dealing system of First Equity where most of the early stake-building was carried out. BP "old", where turnover was 5m shares, settled unchanged at 245p.

FINANCIAL TIMES STOCK INDICES

	Dec. 15	Dec. 14	Dec. 11	Dec. 10	Dec. 9	Year Ago	1987 High	1987 Low	Since Compilation High	Since Compilation Low
Government Secs	87.98	87.94	88.37	88.94	89.17	82.30	93.32 (8/5)	83.73 (19/10)	127.4 (9/1/35)	49.18 (3/1/75)
Fixed Interest	96.05	96.01	96.21	96.52	96.49	89.25	99.12 (15/6)	90.23 (2/1)	105.4 (28/11/47)	50.53 (3/1/75)
Ordinary ♥	1332.0	1312.4	1310.7	1285.0	1297.6	1279.6	1926.2 (16/7)	1232.0 (9/11)	1926.2 (16/7/87)	49.4 (26/6/40)
Gold Mines	327.5	336.0	327.3	324.3	324.8	316.6	497.5 (4/8)	261.6 (6/11)	734.7 (15/2/83)	43.5 (26/10/71)
Ord. Div.Yield	4.70	4.77	4.72	4.83	4.78	4.47				
Earnings Yld. %(full)	11.74	11.87	11.68	11.95	11.85	10.60				
P/E Ratio (net)(*)	10.43	10.32	10.48	10.24	10.33	11.58				
SEAQ Bargains (5pm)	21,238	21,883	23,258	25,469	21,136	38,336				
Equity Turnover (£m)	-	934.61	1318.86	1149.41	1042.39	1360.01				
Equity Bargains	-	23,344	25,993	25,222	23,463	61,657				
Shares Traded (ml)	-	350.0	616.4	588.8	523.7	703.9				

S.E ACTIVITY

Indices	Dec.14	Dec.11
Gilt Edged Bargains	111.8	96.2
Equity Bargains	151.3	168.4
Equity Value	1889.1	2665.8
5-Day average		
Gilt Edged Bargains	109.7	116.2
Equity Bargains	159.4	157.0
Equity Value	2298.2	2181.6

♥ Opening	10 a.m.	11 a.m.	Noon	1 p.m.	2 p.m.	3 p.m.	4 p.m.
1320.4	1330.0	1335.7	1334.9	1334.1	1331.2	1330.3	1330.5

Day's High 1337.6 Day's low 1320.4

Basis 100 Govt. Secs 15/10/26, Fixed Int. 1928, Ordinary 1/7/35, Gold Mines 12/9/55, S E Activity 1974, * Nil=10.32.

LONDON REPORT AND LATEST SHARE INDEX: TEL. 01-0898 123001

Tricentrol, currently under siege from French oil group Elf which is bidding 145p a share after last week's dawn raid, moved up 8 to 174p following news that fellow Wytch Farm participant Premier has been building a near 5 per cent stake in Tricentrol since October 21- the week of the Black Monday crash.

Other oil shares were mixed but movements were generally more to do with takeover sentiment than the compromise agreement reached by OPEC delegates in Vienna on Monday evening. Brent crude for January delivery remained under pressure and fell back another 20 cents to $17 a barrel after the OPEC limitation on output. Brokers' reactions to the OPEC accord ranged from "neutral" to "unimpressive" to a plain "this is bad for the market".

Calor Group were well bid on persistent talk that an offer is in the offing - the shares jumped 18 to 473p - but "take-profits" advice left **Enterprise** 7 off at 264p and **LASMO** a shade easier at 278p.

UK property group **Great Portland Estates** were the latest target for a market raid. The shares surged higher at the outset as Warburg Securities, on behalf of one institutional client, bid 320p per share for 19.25m shares, representing about 12.2 pent cent of the company's equity. Warburgs completed the business with the minimum of fuss and Great Portland Estates shares later settled back to close 38 higher at 306p.

The move on Great Portland Estates excited several other Property issues including **Peachey**, up *15 at 360p. The sector was also featured* **British Land** which responded positively to interim profits well in excess of market estimates; BL ended 12 higher at 255p.

Redfearn featured a jump of 56 to 425p as Mr Ron Brierley's *IEP Securities revealed that the* major part of the stake (20.5 per cent) in the company had been sold at 450p per share. The buyer was Overseas Strategic Investments (OSI), an Australian-listed paper, packaging and overseas investment company.

OSI's major shareholder is the Pratt Group, Australia's largest privately-owned packaging company. Together with its current benificial holding of 945,125 ordinary shares, OSI's holding in Redfearn now amounts to 29.95 per cent.

Beecham moved nearer centrestage following the announcement of expansion plans for the drug Reliflex. The group recently introduced this prescription only medicine which is used to reduce pain and inflamation caused by rheumatoid and osteoarthritis.

Bulk production capacity for Reliflex at Beecham Pharmaceuticals factory in Ayrshire is to be more than doubled over the next two years, at a cost of over £3m. This is to meet growing demand for the drug, which is currently available in the UK, West Germany and Eire. The shares of Beecham rose 11 to close at 458p after a volume of some 3.8m shares.

Burton were the most actively *traded stock in the stores sector* with turnover expanding substantially to the 12m mark. The share price edged up to 225p during initial trading, helped by a batch of buy recommendations from leading broking firms - Kleinwort Grieveson list Burton *as top of the retailers* and Wood Mackenzie reiterate their strong assessment of the stock.

But the shares suddenly came under heavy pressure in mid-session when two lumps of 1m-plus shares were sold at 224p. These sales triggered a fresh spate of *markets rumours regarding* Burton's acquisitions during the past couple of years and the shares dropped sharply to 215p amid hectic trading before rallying late to close a net 6 off at 217p.

Plessey attracted a heavy turnover with 13m shares mov*ing through the SEAQ system as* the share price edged up 6½ to 156½p. It was announced that Guardian Royal Exchange had recently reduced its stake in the company by 5m shares to 49.19m shares, or 6.65 per cent of the issued capital.

But yesterday's activity was largely carried out via the Inter-broker dealer system, with traders convinced *that another fairly* large selling order was being easily absorbed by marketmakers.

Commercial Union, the composite insurance group, held pride of place in a generally buoyant insurance sector. Recent stories of a stake-building exercise grew in substance with former talk that "down-under" groups have been upping their holdings in the company replaced by rumours that West German insurance group Allianz is about to launch a dawn raid on the company after building a stake in recent days.

John Spalvin's Adsteam group was revealed by CU recently as being behind recent stake-building operations which are thought to have given the Australian group a near 5 per cent holding in CU.

Banks turned easier at the close with **Barclays** finally 11 off at 435p, and **Midland** 8 lower at 227p, the latter following the bank's announcement that the £916m third world debt provision is now to be treated as an *exceptional item* rather than as an extraordinary item as announced in July.

The **Commercial Union** stories boosted other composite insurances where **General Accident** added 25 to 833p and **Sun Alliance** 18 to 812p. In brokers **Minet** remained at a substantial discount to the agreed cash bid from US group St Paul and the shares dipped 5 more to 438p. Bid speculation boosted **Willis Faber** 10 to 213p.

Company trading statements generated occasional interest in *the Brewery sector.* **J.A Devenish** responded to the better-than-expected preliminary figures with a rise of 23 at 266p while a County NatWest buy recommendation after the interim results helped lift **Fuller Smith and Turner** 20 to 455p in *a limited market.*

Contrary to recent trading sessions, market makers were able to report genuine support for selected leading Building issues and prices responded quite smartly. **George Wimpey** highlighted the sector, rising 10 to 232p amid strong dawn raid rumours, this in spite of the company denying any knowledge of any potential suitor. Other Construction issues also moved higher, **Taylor Woodrow** rising 8 to 327p and **Barratt Developments** gaining 5 to 170p. **Marley**, boosted by a broker's recommendation, *put on 5* to 130p, while **Blue Circle** improved 10 to 325p and **RMC** put on 7 to 395p.

Elsewhere, **Bett Brothers** added 3 to 83p in reply to good preliminary figures, but **Ibstock** *Johnsen slipped 3 to* 141p amid reports that some 6m shares had come on offer via brokers Cazenove and were subsequently placed with institutional clients. **Steetley** were supported at 297p, up 10, while **Meyer International** continued to attract *buyers and rose 15 to 331p*, a two-day gain of 28. **Vibroplant** moved up 45 to 575p in a restricted market and **Wilson (Connolly)** rose 11 to 286p.

The rise on Wall Street overnight and a steadier US dollar prompted support for **ICI** which *rallied to £10⅞ prior to closing ⅜* higher at £10¾. **Laporte** picked up 13 at 348p, while **Plysu** firmed 3 to 147p following satisfactory half-year figures.

Moss Bros. spurted 160 to 890p, after 900p, following the announcement that the company had sold its Covent Garden freehold site to Japanese group Kumagai Gumi UK for £23.

Leading Foods displayed modest improvements, virtually without exception. **Tate and Lyle** rose a further 10 to 695p, while **S. & W. Berisford** added 4 to 278p. **Rowntree**, boosted by currency influences, picked up 8 at 432p and **Hillsdown** added 2 more to 265p. **ASDA-MFI** found support at 165p, up 5. Among secondary issues, **John Perkins Meats** gained 13 to 78p following excellent annual results, but **Jack Israel** shed 2 to 23p despite increased half-year profits.

With the exception of **Glaxo**, which drifted back 12 further to 969p in the wake of the chairman's warning about currency *influences on the company's* accounts, International stocks made a brighter showing. Once again, the amount of trade left much to be desired, but sentiment was given a boost by the sharp overnight advance on Wall Street and a better trend in the *US dollar. Among the more note*worthy movements, **Unilever**, assisted by a Phillips and Drew buy recommendation, put on 15 to 485p. **Wellcome** rallied 9to 369p as some quarters of the market took a less bearish view of the 20 per cent reduction in the company's anti/Aids drug Retrovir.

Cookson, up 16 at 492p, reflected the sale of its 20 per cent holding in Paul Madeley (Holdings) to Ward White for £5.4m cash. **English China Clays** traded firmly awaiting todays preliminary figures and closed 10 to the good at 394p. Analysts are looking for pre-tax profits in the region of £110m. A squeeze on bear positions left **Pearson** with a sharp gain of 20 at 660p. **Smiths Industries** advanced 8 to 218p on the encouraging tenor of the chairman's statement at the annual *meeting.*

The mood in the Motor sector was altogether more optimistic. **Jaguar**, despite reports that the company may be replaced as a constituent of the FTSE 100 share index, moved up 8 to 277p on currency influences. **Lucas** attracted revived demand and put on 10 to 504p, while **Dowty**, in belated response to the interim statement, added 6 to 171p. Among Distributors, **Lex** were in demand at 263p, up 14, while **H. & J. Quick** advanced 20 to 240p in a restricted market.

Maxwell Communication Corporation moved up 12 to 225p as the market assesed the proposed £100m Pergamon Group deal. Comment on the preliminary figures enlivened further interest in **Norton Opax** which advanced 8 more to 124p; it was also announced that Bishopsgate Investment Trust, a company in which Mr Robert Maxwell *has a substantial interest,* has increased its holding in the group to 23.56 per cent.

Dealings resumed in **Broad Street** *at 68p compared with the* suspension price of 57p in the wake of news that James Gulliver the ex chairman of Argyll Group has acquired a 10 per cent holding in the company. The announcement was accompanied by a proposed acquisition.

Traded option activity remained in relatively low key. Contracts totalled 19,274, made up of 12,827 calls and 6,447 puts. **Marks and Spencer** were active, attracting 1,366 calls and 1,908 puts. The **FTSE** contract registered 521 calls and 737 puts.

Traditional Options

- **First dealings Dec 14**
- **Last dealings Dec 31**
- **Last declarations Mar 17**
- **For Settlement Mar 28**

For rate indications see end of London Share Service

Interest in the traditional option market showed few signs of expanding from the recent low levels. Stocks to attract money for the call included **Lonrho, Polypipe, Martin Ford, Bejam, 600 Group, FKI Babcock, Wimpey, J, Crowther, Bula Resources, Eagle Trust, Brunswick and BOM.** A put option was taken out in **Western Motor**, but no double options were reported.

NEW HIGHS AND LOWS FOR 1987

NEW HIGHS (3).

BRITISH FUNDS (1) Treas. 7¾pc. 1985-88, OILS (2) Britoil, Tricentrol.

NEW LOWS (28).

AMERICANS (3) First Chicago, GATX, Rep. New York Corpn., BANKS (2) Business Mortgage Trust, Goode Durrant, BUILDINGS (1) Manders (Hldgs.), CHEMICALS (1) Cory (Horace), STORES (1) Wickes, ELECTRICALS (4) Applied Holographics Warrants, Cambridge Instrument, Klark-Teknik, Memec, FOODS (1) England (J.), INDUSTRIALS (4) AGA AB, Alfa-Laval AB "B", Assoc. Energy, Black (P.) Hldgs., INSURANCE (1) Berry, Birch, LEISURE (1) Airtours, PAPERS (1) Kleerfold Inc., TRUSTS (5) Greenfriar Inv., Hambros Inv. Tst. Warrants, London & Strathclyde, Ferguson (J.), Ivory & Sime, OILS (2) Claremount Petroleum, Global Nat. Res., PLANTATIONS (1) Grand Central, MINES (1) Paringa Mining/Exploration.

FT – ACTUARIES INDICES

These Indices are the joint compilation of the Financial Times, the Institute of Actuaries and the Faculty of Actuaries

EQUITY GROUPS & SUB-SECTIONS

Figures in parentheses show number of stocks per section

	Tuesday December 15 1987
1 CAPITAL GOODS (214)	[illegible]
2 Building Materials (30)	[illegible]
3 Contracting, Construction (33)	[illegible]
4 Electricals (14)	[illegible]
5 Electronics (33)	[illegible]
6 Mechanical Engineering (60)	[illegible]
8 Metals and Metal Forming (7)	[illegible]
9 Motors (14)	[illegible]
10 Other Industrial Materials (23)	[illegible]
21 CONSUMER GROUP (182)	[illegible]
22 Brewers and Distillers (21)	[illegible]
25 Food Manufacturing (23)	[illegible]
26 Food Retailing (17)	[illegible]
27 Health and Household Products (10)	[illegible]
29 Leisure (29)	[illegible]
31 Packaging & Paper (16)	[illegible]
32 Publishing & Printing (15)	[illegible]
34 Stores (35)	[illegible]
35 Textiles (16)	[illegible]
40 OTHER GROUPS (87)	[illegible]
41 Agencies (17)	[illegible]
42 Chemicals (21)	[illegible]
43 Conglomerates (13)	[illegible]
45 Shipping and Transport (11)	[illegible]
47 Telephone Networks (2)	[illegible]
48 Miscellaneous (23)	[illegible]
49 INDUSTRIAL GROUP (483)	[illegible]
51 Oil & Gas (17)	[illegible]
59 500 SHARE INDEX (500)	[illegible]
61 FINANCIAL GROUP (121)	[illegible]
62 Banks (8)	[illegible]
65 Insurance (Life) (8)	[illegible]
66 Insurance (Composite) (7)	[illegible]
67 Insurance (Brokers) (8)	[illegible]
68 Merchant Banks (11)	[illegible]
69 Property (49)	[illegible]
70 Other Financial (30)	[illegible]
71 Investment Trusts (87)	[illegible]
81 Mining Finance (2)	[illegible]
91 Overseas Traders (10)	[illegible]
99 ALL-SHARE INDEX (720)	[illegible]
FT-SE 100 SHARE INDEX ♦	[illegible]

FIXED INTEREST

PRICE INDICES	Tue Dec 15
British Government	
1 5 years	[illegible]
2 5-15 years	[illegible]
3 Over 15 years	[illegible]
4 Irredeemables	[illegible]
5 All stocks	[illegible]
Index-Linked	
6 5 years	[illegible]
7 Over 5 years	[illegible]
8 All stocks	[illegible]
9 Debentures & Loans	[illegible]
10 Preference	[illegible]

† Flat yield. Highs and lows record, base dates, values and constituent changes are published in Saturday issues. A new list of constituents is available from the Publishers, The Financial Times, Bracken House, Cannon Street, London EC4P 4BY, price 15p, by post 32p.

LONDON TRADED OPTIONS

[illegible]

TRADING VOLUME IN MAJOR STOCKS

The following is based on trading volume for Alpha securities dealt through the SEAQ system yesterday until 5 pm.

Stock	Volume 000's	Stock	Volume 000's	Stock	Volume 000's
ASDA-MFI	4,500	Enterprise Oil	1,800	Prudential	393
Allied-Lyons	695	Fisons	650	Racal	3,500
Amstrad	360	Gen. Accident	421	Rank Org.	643
Argyll Group	6,900	Gen. Elect	3,700	RMC	335

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	[illegible]	[illegible]	[illegible]
Corporations, Dominion and Foreign Bonds	[illegible]	[illegible]	[illegible]
Industrials	[illegible]	[illegible]	[illegible]
Financial and Properties	[illegible]	[illegible]	[illegible]
Oils	[illegible]	[illegible]	[illegible]
Plantations	[illegible]	[illegible]	[illegible]
Mines	[illegible]	[illegible]	[illegible]
Others	[illegible]	[illegible]	[illegible]
Totals	1,108	499	1,323

LONDON RECENT ISSUES

EQUITIES

[illegible]

FIXED INTEREST STOCKS

[illegible]

RIGHTS OFFERS

[illegible]

WORLD STOCK MARKETS

CANADA

TORONTO

Closing prices December 15

MONTREAL

Closing prices December 15

Sales	Stock	High	Low	Close	Chng
79945	Bank Mont	$27 5/8	27 1/8	27 1/4	
200	BombrdrA	$07 5/8	07 5/8	07 5/8	−1/4
70340	BombrdrB	$07 7/8	07 5/8	07 3/4	−1/8
78000	CB Pak	$14 5/8	14 1/4	14 5/8	+3/8
58450	Cascades	$06 3/8	06	06 1/8	+1/8
200	CIL	$26 7/8	26 7/8	26 7/8	−1/8
13700	ConBath	$17 1/2	16 7/8	17 1/2	+3/4
1576	DomTxtA	$17 1/4	17	17	−1/8
1200	MntTrst	$12 1/4	12 1/8	12 1/4	−1/8
102149	NatBk Cda	$11 3/8	10 7/8	11	−1/8
17336	Noverco	$11 1/8	11	11	
666635	Power Corp	$14 1/2	14	14 1/8	+1/8
49942	Provigo	$08	07 3/4	07 3/4	+1/8
6800	Repap Entr	$12	11 5/8	11 3/4	
28041	Royal Bank	$28 5/8	28 1/4	28 3/8	
700	SteinbrgA	$27 7/8	27 3/4	27 7/8	+1/8
4880	Videotron	$08 1/2	08 1/8	08 1/4	−1/4

Total Sales 8,898,000 shares

F—No voting rights or restricted voting rights.

OVER-THE-COUNTER *Nasdaq national market, closing prices*

Continued from Page 39

CHIEF LONDON PRICE CHANGES YESTERDAY

(Prices in pence unless otherwise indicated)

RISES					
Apricot Computers	92	+ 6	Oxford Instruments	398	+ 17
Atlantic Computers	374	+ 17	Peachey Property	360	+ 15
British Land	255	+ 12	Pearson	660	+ 20
Britoil	392	+ 21	Perkins (J.) Meats	78	+ 13
Calor	473	+ 18	Redfearn	425	+ 56
Commercial Union	350	+ 10	Tricentrol	172	+ 6
Cookson	492	+ 16	Unilever	485	+ 15
Devenish (J.A.)	266	+ 28	Willis Faber	213	+ 10
Great Portland Est.	306	+ 38	Wimpey (George)	232	+ 10
ICI	£10¾	+ ⅜	**FALLS**		
Jaguar	277	+ 8	Treas 2½% I.L. 2013	£86⅛	− ¾
London & Manchester	225	+ 16	Enterprise Oil	264	− 7
Moss Bros.	890	+ 160	Glaxo	969	− 12

TOKYO - Most Active Stocks

Tuesday December 15 1987

	Stocks Traded	Closing Prices	Change on day
Yodogawa Steel Wks	23.39m	1,300	+150
Tokyu Const	22.53m	890	+100
Nippon Steel	20.92m	408	-5
Japan Synthetic Rubber	15.96m	891	+66
Toyo Tire & Rubber	12.43m	532	+1
Sato Kogyo ber	9.12m	887	+27
Nachi-Fujikoshi	7.72m	548	+32
Kawasaki Steel	7.49m	345	-3
Nisshin Steel	7.31m	599	+3
Atsugi Motor Parts	6.52m	615	+48

Indices

NEW YORK — DOW JONES

CANADA

NEW YORK ACTIVE STOCKS

NEW YORK STOCK EXCHANGE COMPOSITE CLOSING PRICES

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
25⅝	14	AAR s	.38	2.2	15	787	16¾	16⅛	16⅝	−⅛
32½	19	AFG s	.16	.6	9	1980	26	24	25	+1½
27	10½	AGS s			13	565	16	15¼	15⅜	−⅛
10½	6¼	AMCA				25	6⅞	6⅝	6¾	+⅛
9⅜	3¼	AM Intl			33	1946	4¾	4⅜	4⅝	
65½	26¾	AMR			9	12114	33	32	32⅝	+1¼
25	19	ANR pf	2.12	10.		2	20¾	20¾	20¾	−½
12¼	6⅜	ARX s			7	106	7⅛	6⅞	7	−⅛
73½	35⅛	ASA	2a	4.0		1082	52¼	49	49¾	−3¼
22⅜	9½	AVX			17	210	13¾	13½	13¾	+¼
67	40	AbtLab	1	2.1	18	6822	46¾	46	46⅝	+⅝
28	15⅜	Abitibi g				190	19½	19¼	19¼	−¼
16¾	8½	AcmeC	.40	3.9	15	75	10¾	10¼	10⅜	
10½	6⅛	AcmeE	.32b	4.6	24	112	7¼	7	7	
20	14⅛	AdaEx	3.34e	22.		237	15¼	15	15¼	+¼
19½	6⅞	AdamM	.24	2.8	7	24	8½	8¼	8½	+⅛
35	16⅝	AdvSys			13	712	28¾	27	28	+1
24⅞	7½	AMD				5687	10⅜	9¾	9⅞	−⅛
56¾	29¼	AMD pf	3	9.7		52	31⅜	30⅞	30⅞	
11⅞	4⅝	Adobe				500	5⅜	4⅞	5⅛	−¼
20½	15½	Adob pf	1.84	11.		14	17½	17¼	17¼	
21⅞	17	Adob pf	2.40	12.		12	19¾	19½	19¾	
15	6⅛	Advest	.12a	1.5	6	209	8	7⅞	8	
68¼	43¾	AetnLf	2.76	6.2	6	4279	45¾	44¼	44½	−½
83½	33¼	AflPb s	.40	.8	7	553	48	45	47⅝	+2¾
28⅞	13	Ahmans	.88	6.3	6	8269	14⅛	13½	13⅞	+½
5⅜	1¾	Aileen				66	2¼	2⅛	2⅛	
53⅞	29	AirPrd	1	2.9	12	1639	35⅞	34⅞	34⅞	−⅞
36	11⅛	AirbFrt	.60	4.5	8	443	13¼	12¾	13¼	+⅞
18½	6¾	Airgas			14	234	9¾	9⅝	9¾	+¼
19½	13½	AirleaseB	.16e	14.	9	26	15⅝	15¼	15⅝	
15-32	5-16	AIMoan			34	21	11-32	11-32	11-32	
10¾	7⅜	AlaP dpf	.87	9.7		53	9⅛	9	9	−⅛
106½	81½	AlaP pf	9	10.		z300	90	88½	88½	−⅝
98½	77	AlaP pf	8.28	10.		z1010	82	80	82	+1½
27⅞	12¼	AlskAir	.16	1.1	18	1646	14½	14	14⅛	+⅜
28¼	14¾	Alberto	.24	1.2	16	195	20	18⅝	20	+1½
24	12⅝	AlbCulv	.24	1.6	12	143	15⅞	14⅞	15	−⅜
34	20¼	Albtsn s	.48	1.9	15	660	25½	24⅞	25⅜	+¾
37⅞	18	Alcan s	.45j	1.6	13	6454	28¼	27	27⅜	−¼
30	15¼	AlcoS s	.68	3.6	11	333	19¼	19	19⅛	
32	15⅞	AlexAlx	1	6.0	12	1639	16⅞	16¼	16¾	+¼
59	34¾	Alexdr			115	27	39	38½	39	+¾
92½	48½	AllegCp			6	81	69½	68½	69¼	−¾
24¾	2⅜	AlgInt				479	3	2¾	2¾	−¼
20⅛	5¼	AlgIn pr				22	6⅝	6½	6⅝	−⅛
88½	20	Algi pfC				6	25	25	25	−¾
34	15⅛	AlgLudn	.20e	.9		723	24⅛	23	23	
49	31⅜	AllgPw	3	8.4	9	784	36	35⅝	35⅝	
105⅞	52	Allegis	.75j		35	4438	71	69¼	69½	−¾
15⅜	5½	AllenG	.56j			548	7¼	6¾	7	−¼
24⅞	10	Allen pf	1.75	17.		127	11¼	d9¼	10½	−¾
44	12⅜	AlldPd			8	125	13¾	13¼	13¾	+⅛
49¼	26	AldSgnl	1.80	6.5	8	6285	27⅞	26⅞	27¾	+⅞
3¾	1	vjAllisC				685	1½	1¼	1¼	−⅛
37½	5⅛	AllisC pf				17	5¾	5½	5¾	+⅛
10⅛	8⅞	AlstMun	.03e	.3		338	9⅜	9	9⅜	
34⅛	23	ALLTL s	1.52	5.5	14	794	28⅛	27⅝	27⅝	−¼
64¾	32⅞	Alcoa	1.20	2.5		6437	49	47⅝	48½	+¾
32	14	AmxG n	.04e	.2		1222	28⅛	25¾	25⅜	−1⅝
29¼	11⅞	Amax			7	5834	20	19⅛	19⅜	+⅛
41⅞	21½	AmHes	.45e	1.9	8	4329	24⅛	23⅝	23⅝	−¾
30⅜	7	ABrck s	.05e			1510	22½	21⅜	21⅝	−1½
60	36½	AmBrnd	2.20	5.3	10	3269	43⅞	41⅝	41⅞	−1
34½	29⅞	ABrd pf	2.75	9.0		40	30½	30½	30½	+⅛
26⅝	15	ABldM	.90	5.6	11	347	16⅛	15¾	16	+⅛
31½	15½	ABusPr	.80	4.6	11	75	17⅜	16⅝	17⅜	+¾
25⅜	17⅞	ACapBd	2.20	10.		55	21¼	20⅞	21¼	+⅜
35⅜	23¾	ACapCv	5.02e	21.		21	24⅛	23¾	23¾	−⅛
24⅞	7⅜	ACMR	1a	13.	6	109	8	7¾	7¾	−⅛
4⅝	⅞	ACentC				57	1	15-16	15-16	
57	29	ACyan s	1.05	2.5	14	4805	42¼	40¾	41⅜	+⅜
31⅝	23⅛	AElPw	2.26e	8.6	9	3678	26⅜	25⅞	26⅜	+½
40⅝	20¾	AExp s	.76	3.2	14	17858	23⅝	22⅞	23½	+¾
18½	9⅞	AFaml s	.24	1.7	13	2885	14⅝	14¼	14½	
44¾	27¼	AGnCp	1.25	4.3	6	3330	29⅜	28¾	29⅛	+⅛
21⅞	5¾	AGnl wt				974	6⅞	6½	6⅞	+½
20	12	AHltP n	1.22e	8.1		911	15⅜	15	15⅛	

Continued on Page 39

NYSE COMPOSITE CLOSING PRICES

Continued from Page 38

12 Month High	12 Month Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
51	34	PNC	1.68	4.9	9	510	34¾	34⅜	34½	−¼
53½	27½	PPG s	1.20	3.4	12	1594	35½	33¾	35¼	+1
[illegible]										
33⅞	16⅛	Yorkin			10	250	23½	23	23¼	+¼
7¼	2⅜	Zapata				441	2⅞	2⅝	2¾	
37	13½	Zayre	.40	2.6	5	4327	15⅜	14⅝	15¼	+⅜
16⅛	9¼	Zemex	.40	4.3	8	24	9⅜	9¼	9⅜	
33⅝	10	ZenithE				685	14½	14⅛	14⅜	+⅛
13½	2⅝	ZenLab				1361	3	2¾	3	
26½	13½	ZenNtl	.80	5.1	8	44	15¾	15½	15⅝	+⅛
20⅝	11⅜	Zero	.36	2.4	14	145	15	14¼	14¾	+⅜
30¾	15	Zurmin s	.68	3.8	12	674	18⅛	16⅝	18	+1
10⅝	7⅝	Zweig	.92e	11.		631	8⅞	8⅝	8¾	+⅛

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 per cent or more has been paid, the year's high-low range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividends are annual disbursements based on the latest declaration.

a-dividend also extra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E-price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls - sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-divident or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE CLOSING PRICES

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng
[illegible]							

OVER-THE-COUNTER *Nasdaq national market, closing prices*

Stock	Sales (Hnds)	High	Low	Last	Chng
[illegible]					

Continued on Page 37

FINANCIAL TIMES Wednesday December 16 1987

AMERICA

Advance checked by profit-taking

Wall Street

A STRONG opening rally failed to maintain its momentum yesterday as investors started taking profits after the substantial rise in the market over the last week, *writes Janet Bush in New York.*

The Dow Jones Industrial Average closed only 8.62 points higher at 1,941.48, well down on its morning highs which had seen the index peak at 1,969.00, a gain of more than 36 points.

In the previous six trading sessions, the index had risen more than 160 points and some profit-taking was inevitable. This week's rally has been fuelled partly by futures-related computer-buy programmes and partly by renewed optimism about the inflation outlook given sharply lower oil prices.

The December Standard and Poors 500 futures contract was trading at a one point premium to the cash market yesterday and the march contract commanded a two point premium, triggering the sale of futures contract and purchases of cash stocks.

Volume was relatively high yesterday with more than 216m shares changing hands.

The US Treasury bond market continued to benefit from the bullish implications of lower oil prices and the Treasury's benchmark 8.875 per cent 30-year issue closed around 1⅛ points higher to yield 9.207 per cent.

Both bond and equity markets are, to some extent, focussed on the meeting yesterday and today of the US Federal Reserve's Federal Open Markets Committee for any clues to the stance of monetary policy.

The various economic indicators used to signal the tightness or looseness of policy are tending to give mixed signals, suggesting that if anything the Fed will wait for more concrete indications of inflationary pressures and economic growth before adjusting policy.

While the weakness of the dollar after last week's announcement of a record trade deficit in October suggest, if anything, the Fed should err towards tightening policy, other indicators suggest the Fed may even have scope to ease if necessary.

Researchers at Griggs & Santow had been looking for, if anything, a slight tightening in policy because of the weakness of the dollar. However, their view has shifted to "no change" from the meeting because of the recent weakness in oil prices, flat producer prices and weaker than expected growth in the monetary aggregates.

In the real economy, it appears that production, particularly in manufacturing industry, remains buoyant. On the other hand, there has been some evidence of softness in final demand. Financial markets will be looking carefully at Friday's figures on personal consumption in November and the latest data for consumer prices.

The oils sector remained weak yesterday as oil prices declined sharply. Exxon closed $⅜ lower at $39¼, Amoco was $1½ lower at $63¼ and Chevron lost $⅞ to $37⅞.

Among blue chips, IBM gained $⅞ to $116, Eastman Kodak was $⅞ higher at $49½ and Proctor and Gamble edged $¼ higher to close at $86¾.

Bell & Howell shares fell $¾ to $60 after news it had agreed to sell itself to a group led by Texas investor Mr Robert Bass for $64 a share.

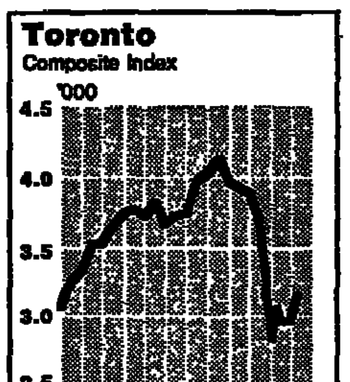
Chrysler recovered from a midsession loss of $⅛ to close unchanged at $22½ after the company's announcement it was scaling back and delaying construction of a new assembly plant in Detroit because of concerns about the economy and because of a change in product plans.

Among major industrial stocks, Caterpillar closed unchanged at $60 having been $½ up at midsession while Merck lost a gain of $⅞ to close $2¾ lower at $158.

USX, the largest domestic steel producer in the US, slipped $¼ to $30¾. The company has reactivated its overseas export subsidiary in its first attempt in years to regain market share in foreign steel markets. Other steels were mixed. Bethlehem Steel edged $¼ higher to $17⅝ while Armco lost $⅛ to $10⅞.

L F Rothschild, which yesterday announced it had agreed with Merrill Lynch that a subsidiary of Merrill Lynch would undertake its customer clearing business, slipped $⅜ to $4¼. Merrill Lynch was unchanged at $20¼. Meanwhile, Bankers Trust closed $½ lower at $27 after news the bank has boosted its regular quarterly dividend on its common stock to 46½ cents from 41½ cents.

Canada



TORONTO STOCKS gave up earlier gains to close lower as profit-taking among resource issues dragged the market down.

The composite index, which had gained about 20 points in earlier trading, fell 26.70 to 3144.40 as declines outran advances by 560 to 323 on active volume of 31.8m shares.

Mr Ian Simpson, of Midland Doherty, said a round of profit-taking that battered gold issues pulled the market lower, but much of the activity was in heavily weighted blue chips.

Athens SE authorities act to halt volatility

By Andriana Ierodiaconou in Athens

THE ATHENS stock exchange authorities imposed emergency price control measures yesterday in a bid to stabilise share prices, which have been fluctuating sharply since the end of November.

Shares priced at more than Dr15,000 ($115) will not be permitted to gain or lose more than 3 per cent a day in value, while for shares priced below *Dr15,000* the permitted fluctuation will be 5 per cent.

Share prices lost about 50 per cent in value following a shift in the Goverment's stabilisation policy and the *imposition of a surprise* tax on 1986 profits at the end of last month.

The market recovered by about 30 per cent following the announcement of a tax incentive package last week, including an increase in tax-free allowances on earnings from dividends.

However, prices began to slide again this week and the general price index yesterday fell by 4.06 per cent.

EUROPE

Transatlantic influences underpin welcome rally

THE HEFTY advance by Wall Street overnight gave a much-needed boost to Europe's sadly flagging bourses yesterday. The mood was also helped by a slight rise in the dollar, the fall in oil prices and a belief in some quarters that prices might be bottoming out.

FRANKFURT was given a fillip by New York's performance but the rally was seen mainly as a technical reaction to recent lows. Trading remained very thin, exaggerating price movements.

The Commerzbank index at midsession was up 19.5 at 1,327.8, while the FAZ index closed 5.42 higher at 432.09.

The dollar's slight rise provided a lift for some of the export-oriented favourites. Siemens closed DM9 to the good at DM376.50. Also in electronics, SEL rose DM13 to DM283 after news that it was selling its German TV operations to Nokia of Finland.

The car sector saw a sharp recovery for BMW, up DM22 at DM456, while Daimler put on DM10 to DM612 and VW managed a DM4.70 rise to DM226.80.

Banks were firm, with Deutsche adding DM12.50 to DM406, while Allianz put on a further DM22 to DM1,212 as insurers continued to draw attention.

Maho, the machine tool manufacturer floated a year ago at DM325, lost 90 pfg to DM191 after forecasting that profits would fall sharply in the year to June 1988.

Chemicals benefited from falling oil prices. Bayer climbed DM9.40 to DM266.40 and BASF put on DM8 to DM258.40.

Bonds rose slightly in quiet trading and the Bundesbank sold DM63.6m worth of paper after buying DM84.2m on Monday.

PARIS saw further bargain-hunting in the wake of Wall Street's overnight strength and a slight easing of domestic interest rates. The CAC General index rose 5.5 to 282.8 in moderate trade.

In the car sector, where Peugeot put on FFr26 to FFr916, Michelin added FFr5 to FFr187 and Valeo advanced FFr11 to FFr435.

Constructions did well, with Bouygues up FFr38 at FFr928. Food stock BSN climbed FFr110 to FFr4,310, but Elf-Aquitaine shed FFr3 to FFr241 in oils.

Recently floated Suez put on FFr1.50 to FFr273.50 and Eurotunnel SA recouped 80 centimes to FFr25.90 compared with its issue price of FFr35.

ZURICH edged up on Wall Street's overnight advance but caution was still rife over the dollar's course. The Credit Suisse stock index ended 4.6 higher at 413.4. Foreign buying helped lift the market as many domestic investors stayed away.

Union Bank ended SFr25 lower at SFr3,050 and Credit Suisse shed SFr20 to SFr2,400. A report from the chief executive of Credit Suisse said the equities crash would probably affect bank profits next year because of losses on securities holdings.

AMSTERDAM was supported by the dollar and Wall Street and the livelier mood in other European markets and the CBS tendency index added 2.3 to 65.1 in scarce trading.

Trading was suspended in transport group Nedlloyd pending a statement tomorrow. The share price had risen Fl 16.50, or 13 per cent, to Fl 141.50 during the session amid talk of a hostile takeover bid.

MILAN rallied on an active last day of the December trading cycle. Fiat picked up L160 to L8,390 and Montedison was L28 higher at L1,413, while Generali rose L880 to L87,000.

MADRID carried on upwards, led by construction and food stocks. The general index put on 0.63 to 212.48.

STOCKHOLM picked up on New York's better tone, with volume rising too. Ericsson, which has won a SKr100m order to supply digital exchanges to the Swedish armed forces, added SKr2 to SKr163.

OSLO turned mixed as worries about lower oil prices returned to haunt the market. Norsk Hydro shed NKr5 to NKr139 but Saga Petroleum edged up NKr0.5 to NKr75.50.

London

INTERNATIONALLY traded blue chips took heart from overnight stength on Wall Street to lead London equities higher from the opening. Despite a tail-off later on fears the economy could overheat the FT-SE 100 index closed up 17.4 at 1,670.0.

ASIA

Early buying fades as yen climbs

Tokyo

FOR THE THIRD consecutive trading day, Tokyo share prices were driven lower yesterday when the strong yen dampened investors' enthusiasm late in the session, *writes Shigeo Nishiwaki of Jiji Press.*

The Nikkei average fell 79.55 from Monday to 22,846.73 in slightly higher volume of 512m shares compared with 326m the previous day. Advances led declines by 452 to 427, with 155 issues unchanged.

The market made a good start, with buying interest centring on high-technology issues, large-capital stocks, and speculative shares.

The early rise was helped by the overnight surge in the Dow Jones industrial average to regain the 1,900 level and by a fall below $18 a barrel in crude oil prices in New York.

However, the yen extended its strength against the dollar to hit a new high of Y126.80 for closing at Y126.95 on the Tokyo foreign exchange market. This sparked small-lot selling and prompted institutional investors and individuals to retreat to the sidelines.

Japan Air Lines (JAL) was one of the more powerful performers of the day, climbing Y500 to Y14,400 following the sale of 48.1m government-held JAL shares to businesses and individuals beginning yesterday at a price of Y13,400 a share.

NTT remained under small-lot selling pressure, however, closing Y10,000 lower at Y2.32m.

Elsewhere on the trading floor, speculators hunted small- and medium-capital stocks to earn quick profits. Yodogawa Steel Works topped the active list with 23.38m shares changing hands and closed Y150 higher at Y1,300.

Tokyo Steel soared Y390 to Y3,350 and Tokyo Tekko Y300 to Y1,810. These steel issues drew popularity on the strength of the recovering steel market.

Small- and medium-capital constructions fared well on the prospect that the fiscal 1988 budget to be adopted by the Government on December 28 would call for increased public works spending to boost domestic demand.

SOUTH KOREAN share prices bounced back strongly in busy trade as individual investors bought strongly before today's presidential elections.

Machinery, car and steel stocks led the recovery. The composite stock index picked up 6.81 to close at 473.17 following a loss of 9.24 the previous session.

Turnover was also higher, with 12.21m shares traded compared with 8.85m on Monday. Clothing, wood-related and pharmaceutical issues fell back.

Tokyu Construction, the second busiest issue with 22.53m shares traded, leapt Y100 to Y890. Sato Kogyo jumped Y27 to Y887 and Kamigumi Y34 to Y573.

A few specific issues attracted buying interest, including Japan Synthetic Rubber which added Y66 to Y891. Nachi-Fujikoshi, up Y32 to Y548 and Zenchiku Y35 higher at Y850.

Leading shares were neglected. Nippon Steel, though ranking third in the active list with 20.92m shares, ended Y5 lower at Y408 after advancing Y7.

Matsushita Electric Industrial and NEC shed Y10 each to Y2,060 and Y1,900, respectively, while Sony finished Y100 lower at Y4,850.

Bond prices continued weak in the absence of specific incentives.

Buying interest did not gather steam despite the yen's unabated rise to about Y126 to the dollar.

The yield on the benchmark 5.0 per cent government bond, falling due in December 1997, hovered around 4.805 per cent after falling to 4.770 per cent.

Osaka Securities Exchange prices closed lower for the third straight trading session, affected by the strong yen.

The 250-issue OSE stock average ended 12.35 lower at 23,250.64 on an estimated volume of 84m shares, an increase of 39m shares from the previous day.

Tsudakoma came underwent profit-taking to finish Y100 lower at Y1,150. Osaka Soda lost Y50 to Y1,360, while Taiyo Sanso gained Y44 to Y664.

Australia

FIRMER metal prices and the inspiration of gains in New York led Sydney share prices to their strongest advance in 14 sessions. The All Ordinaries index ended 26.2 higher at 1,248.4.

Quality industrial and mining issues performed best, while takeover activity further buoyed sentiment.

North Broken Hill was a notable gainer, adding 12 cents to A$2.90 in trade of 14m shares.

NBH takeover target Peko Wallsend jumped A$1.76 to A$7 in thinner trade.

Of the industrials, News Corp was 30 cents higher at A$9.60, Brambles 20 cents up at A$7 and Coles Myer also 20 cents better at A$5.90. National Australia Bank notched up 15 cents to A$4.50.

Wormald, though, dived 35 cents to A$1 on news of asset write-offs of $178m and plans to see Reil take 40 per cent of the group.

BHP made up 30 cents to A$6.46 in modest trade.

Singapore

BARGAIN hunters continued to support Singapore share prices over a broad front in quiet trade, largely bypassed by institutional investors. Gains were tempered, however, by the dollar's weakness on local exchanges and the softness of Tokyo share prices.

The Straits Times industrial index rose 9.52 to 750.55.

Of the leading blue chip gainers, DBS climbed 25 cents to S$8.30, Cerebos 20 cents to S$3.72 and Singapore Airlines 15 cents to S$8.50. Fraser and Neave was 10 cents higher at S$7.10 on news of its 14.5 per cent profit rise.

Haw Par topped the actives with 1m shares traded, adding 2 cents to S$2.20, in overall turnover of 13.2m shares, a rise of 3.4m on Monday.

Hong Kong

ENCOURAGED by Wall Street's strong overnight gains, Hong Kong share prices again managed a sharply higher close. The Hang Seng index added 40.00 to end at 2,080.62 as late buying rallied prices from a midsession fall.

Overseas buyers returned to the market, particularly from Japan. There were particularly strong market rumours of Japanese interest in Cathay Pacific, which added 15 cents to HK$5.15 in busy trade.

Properties were buoyant, Sun Hung Kai adding 15 cents to HK$7.95 and Cheung Kong 15 cents to HK$5.80.

Stronger utilities included a 40 cent gain for Hongkong Electric to HK$7.05. In commercial and industrial shares, Jardine Matheson rose 35 cents to HK$9.05 and Hutchison Whampoa 35 cents to HK$6.50.

Swire Pacific A stock made up 30 cents to HK$13.90 and Wharf Holdings edged 5 cents higher to HK$5.35.

SOUTH AFRICA

THE BULLION price's retreat from $500 an ounce heralded a similar slide in Johannesburg gold shares. Trade was dull as dealers remained sidelined before today's national holiday.

Golds lost the ground they had made on Monday on bullion's rise, with notable losers including Vaal Reefs, down R11.25 at R348.75, and Hartles, which lost R1.25 to R30.50.

Other mining stocks fell with golds, with Rustenburg Platinum 25 cents easier at R30 and bellwether diamond stock De Beers 10 cents off at R29.40.

Mining financials were also broadly softer, with Anglo American losing R1.75 at R58.25. Gold Fields of South Africa, though, managed a R1 gain to R62.

Industrials were narrowly mixed.

Belgian investors play down poll signals

BY TIM DICKSON IN BRUSSELS

IN MOST countries a swing to the left spells bad news for the local stock market.

But over the last couple of days the Belgian bourse has nonchalantly shrugged off the gains notched up by the French-speaking Socialist Party in Sunday's general election.

Monday's 43 point fall in the Brussels Stock Exchange Index to 3,511 was attributed as much to the weakness of the dollar as the "bad" tidings from the poll. Yesterday international influences were again equally significant as the rally on Wall Street inspired a partial recovery to 3,526.

Investors had discounted a setback for the centre-right coalition of outgoing Prime Minister Mr Wilfried Martens even before the weekend. Moreover, they are not yet convinced the Socialists (despite a majority in Wallonia, the French-speaking southern region) will play a part in the next Government.

Even if a new coalition does betray a leftward tilt, investors do not believe the recent tough economic policies can be radically changed. Despite the achievements of the last few years, the argument goes, Belgium's budget deficit still remains unacceptably high by international standards.

Foreign investors untutored in the tortuous complexities of Belgian politics may be particularly nervous in the next few weeks, a point acknowledged by Mr Andrew Beier of Brussels stockbrokers De Waay, who said that "the best we can hope for is that institutions retain their current weighting in the market."

Turnover has been wafer thin - only BFr780m on Monday and about the same yesterday - and Mr Beier does not expect buyers to return in large numbers until the likely composition of a new Government becomes clear.

Mr Marc de Brower, head of research at stockbrokers Petercam, singled out utilities like Intercom, Ibes and Unerg as one potentially vulnerable sector.

In the past the Socialist parties have threatened to alter the privileged tax status of these companies but in the last couple of days prices have been no weaker than the market average.

One analyst pointed out that the Socialists would have to take into account the large number of small investors who rely on the high dividends paid by the utilities.

An optimistic note was struck by the head of research at Banque Bruxelles Lambert, Belgium's biggest commercial bank, which said that on fundamental grounds Brussels looks good value.

The market's price earnings ratio is estimated by BBL at 8.5 (based on 1988 projections) and the yield (based on 1987 dividends) at 5.7 per cent.

FT – ACTUARIES WORLD INDICES

Jointly compiled by the Financial Times, Goldman, Sachs & Co., and Wood Mackenzie & Co. Ltd., in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS (Figures in parentheses show number of stocks per grouping)	TUESDAY DECEMBER 15 1987: US Dollar Index	Day's Change %	Pound Sterling Index	Local Currency Index	Gross Div. Yield	MONDAY DECEMBER 14 1987: US Dollar Index	Pound Sterling Index	Local Currency Index	DOLLAR INDEX: 1987 High	1987 Low	Year ago (approx)
Australia (88)	96.12	+2.0	77.83	89.53	4.65	94.24	76.08	87.10	180.81	85.36	99.12
Austria (16)	94.25	+1.9	76.28	80.37	2.60	93.09	75.15	79.00	102.87	85.53	93.83
Belgium (48)	95.95	+0.1	77.69	81.16	5.85	95.83	77.36	80.83	134.89	94.63	95.71
Canada (127)	108.99	-0.6	88.25	103.15	3.02	109.65	88.52	103.82	141.78	98.15	99.56
Denmark (38)	114.21	-0.5	92.48	97.39	3.03	113.66	91.76	97.08	124.83	98.18	96.08
France (121)	84.61	+1.9	68.51	73.36	3.62	83.04	67.04	72.04	121.82	77.39	101.22
West Germany (93)	76.26	+1.3	61.75	64.66	2.94	75.26	60.76	63.82	104.93	68.91	95.45
Hong Kong (46)	80.51	+2.2	65.19	80.16	4.17	78.81	63.62	78.48	159.68	73.92	94.70
Ireland (14)	100.04	+2.2	81.00	86.37	5.24	97.87	79.01	84.50	160.22	93.50	96.97
Italy (94)	76.40	+1.2	61.86	68.59	2.79	75.50	60.95	67.80	112.11	72.04	90.60
Japan (457)	144.19	+0.2	116.75	116.26	0.60	143.87	116.15	116.36	161.28	100.00	97.70
Malaysia (36)	101.45	+1.3	82.14	97.05	3.72	100.18	80.88	95.69	193.64	93.76	97.58
Mexico (14)	121.95	+6.4	98.74	296.67	1.00	114.58	92.50	281.88	432.59	99.72	101.06
Netherland (37)	95.76	+2.2	77.53	80.29	5.61	93.71	75.65	78.49	131.41	87.70	97.01
New Zealand (20)	75.97	-0.5	61.52	62.48	5.16	76.35	61.63	62.67	138.99	75.09	96.56
Norway (24)	98.87	-1.7	80.06	85.45	3.20	100.56	81.28	86.84	185.02	95.51	99.12
Singapore (26)	87.80	+1.2	71.09	81.02	2.99	86.72	70.01	80.05	174.29	81.21	98.74
South Africa (61)	140.06	-2.9	113.41	92.79	4.70	144.26	116.46	94.15	198.09	100.00	102.10
Spain (43)	122.69	+0.3	99.34	102.56	4.02	122.27	98.71	102.45	168.81	100.00	95.54
Sweden (34)	94.60	+1.0	76.60	83.08	2.75	93.63	75.58	82.12	136.64	88.50	96.36
Switzerland (53)	79.62	+0.9	64.47	65.55	2.53	78.89	63.69	64.93	111.11	73.65	94.10
United Kingdom (332)	125.24	+0.9	101.41	101.41	4.60	124.14	100.22	100.22	162.87	99.65	94.91
USA (582)	98.71	+0.3	79.93	98.71	3.73	98.46	79.48	98.46	137.42	91.21	103.62
Europe (947)	100.09	+1.1	81.04	83.51	4.04	99.00	79.92	82.49	130.02	92.25	95.36
Pacific Basin (673)	139.92	+0.3	113.30	113.89	0.81	139.51	112.62	113.87	158.77	100.00	97.67
Euro-Pacific (1620)	124.02	+0.6	100.42	101.76	1.86	123.33	99.57	101.34	143.65	100.00	96.75
North America (709)	99.25	+0.2	80.37	98.98	3.69	99.06	79.97	98.78	137.55	91.68	103.40
Europe Ex. UK (615)	84.49	+1.3	68.41	72.28	3.53	83.40	67.33	71.36	111.97	78.89	95.64
Pacific Ex. Japan (216)	88.29	+1.8	71.49	83.18	5.07	86.72	70.01	81.32	164.03	82.92	97.30
World Ex. US (1822)	123.67	+0.5	100.14	101.86	1.93	123.08	99.36	101.49	143.38	100.00	96.91
World Ex. UK (2072)	112.92	+0.4	91.43	100.76	2.30	112.52	90.83	100.53	138.82	100.00	99.97
World Ex. So. Af. (2343)	113.83	+0.4	92.17	100.83	2.23	113.34	91.50	100.49	139.47	100.00	99.50
World Ex. Japan (1947)	99.54	+0.5	80.60	92.98	3.87	99.02	79.94	92.42	134.22	92.98	100.39
The World Index (2404)	114.00	+0.4	92.31	100.80	2.53	113.54	91.66	100.47	139.73	100.00	99.52

Base values: Dec 31, 1986 = 100

SECTION III

FINANCIAL TIMES SURVEY

Free market economics and an emphasis on political stability are the priorities for Mr Turgut Ozal's second term of office. But, as David Barchard writes here, Turkey has many challenges to overcome in its quest for European Community membership in the near future.

Turkey FINANCE AND INDUSTRY

CONTENTS

Photographs by Terry Kirk; graphics, by Bob Hutchison; page one illustration by Mikki Rain.

Poised for take-off

PROSPECTS have seldom looked brighter for Turkey than they do at the beginning of Mr Turgut Ozal's second term as Prime Minister.

The Motherland Party's election victory on November 29th seems to guarantee the country another five years of stable government – and this time round, unlike 1983 when the military supervised the elections, there are no doubts that the Government and Parliament have been elected through a fair test of the popular will.

Over the last three decades Turkish governments have alternated between being democratic but weak, and strong but undemocratic. Mr Ozal's new administration with its explicit commitment to make the country "leap from one age into another," is the first strong reformist government in Turkey for many years with a clear popular mandate for the work ahead.

Prospects look encouraging on the economic front, too. Eight years after Mr Ozal, then a civil servant at the head of the State Planning Organisation, launched his original economic reforms, the economy is back to normal and the investment climate is brightening steadily

Though much remains to be done before Turkey becomes a fully export-oriented market economy, and public spending, inflation, and the external debt burden are all higher than they ought to be, most of the signals are encouraging.

Exports are running at record levels and will probably top the $10bn mark at the end of the year. The current account deficit has tumbled in 1987, and should be around $850m at the end of the year, just over half the 1986 figure.

Not surprisingly, the mood in the Motherland Party and in the team of advisers, around the *prime minister,is strongly hope*ful – "very exciting times lie ahead for Turkey in the next few years as we press on with things that we could not do in the first term in government," says one of the Prime Minister's advisors.

Steps likely to take place in the next few months include the setting up of a foreign exchange market as a necessary preliminary to floating the Turkish Lira, improved control over the money supply and public expenditure, along with further trade liberalisation and moves to attract more foreign investment.

Social reforms, including an overhaul of the educational system, are also being contemplated.

The goals upon which Mr Ozal has his sights presuppose rapid advances on many fronts over the next few years.

As far as the Motherland Party is concerned, the "rescue operation" phase of Mr Ozal's career in the early 1980s is now over. The immediate task is to turn Turkey by the early 1990s into an important trading nation with a modern infrastructure. Exports are to double during the life of the new parliament to reach $20m a year.

This will open the way for convergence with, and ultimately full membership of, the European Community soon after the end of the century. The ultimate vision is of a large and strong industrialised nation by the third or fourth decade of the next century, with a population of over 100m and comparable, in many respects to Japan, though part of Europe - if Europe wants it to be.

There are obviously stark obstacles along the way to this eventual goal – social, demographic, and cultural, as well as political and economic. The business world shares Mr Ozal's vision of the future, but much of the rest of the country still has to be convinced.

Yet what Mr Ozal has achieved so far seems to match the boldness of his ambitions. In just over four years, he has created a political party which has supplanted the existing ones and looks like a natural majority party.

The country as a whole is more prosperous than it ever was, and is increasingly viewed by investors and suppliers in the rest of the world as one of the most exciting new markets, anywhere. Gone is the image of an indebted and shipwrecked country which Turkey exuded at the start of this decade.

Ministries and government institutions - the Central Bank, the Treasury, State Industries, and municipalities - have been overhauled and the legislation regulating them has been updated. *Public sector industries* are slowly being prodded to the point where they can be sold off to the private sector.

Equally strikingly, Mr Ozal has outgrown the generals who grudgingly let him be elected in 1983. Civilian supremacy in many areas of government has been re-established and last summer the prime minister took the daring and unprecedented step of imposing his candidate on the Armed Forces for Chief of General Staff.

Direct influence of the military in day-to-day politics has dwindled to the point where these days questions about it tend to be asked only by foreigners.

How securely based is this achievement and does Mr Ozal have the resources he needs to *press his programme further?*

The country's rapid population growth (the last census showed that it was growing by more than 2.5% a year and Mr Ozal is sceptical of population control programmes) poses a strong challenge. Most Turkish governments believe that they have to follow strongly expansionary growth policies to stay ahead of social problems, notably inflation.

Politically, the Prime Minister's base is strong but narrow, despite the Motherland Party's claim to unite four different right-wing and left-wing political traditions. Mr Ozal has exploited his opportunities with singular shrewdness and imagination. Even so the Motherland Party in the recent general elections came out well ahead of all its rivals but with a relatively disappointing 36% of the votes.

This gave it a handsome overall majority of 134 seats in the 450 member National Assembly, but only because Mr Ozal had had the foresight to introduce a "double barrier electoral system" last year which wiped out the smaller parties.

To institutionalise its hold on power, the Motherland Party will probably try and develop into an alliance of farmers and employers, something like the Liberal Democratic Party in Japan, which as Motherland Party leaders are fond of pointing out, has enjoyed a continuous spell in office since 1949.

Mr Ozal and his followers believe that some similar formula for political stability is needed to ensure rapid economic development in Turkey.

One of the striking features of the last year has been the failure of the opposition parties to take advantages of what seemed not long ago to be commanding opportunities.

The opposition parties are tarnished by their associations with the weak governments and violence of the 1970s, but this does not entirely explain their ineptness or the ease with which Mr Ozal has since last summer outclassed the opposition.

Even if none of the other parties currently has much plausibility as an alternative government, their complaints about high inflation, increasing income inequality and the dangers of a growing foreign debt burden, have found a receptive public.

There are other areas of weakness in the Motherland Party's record which could yet become politically hazardous. The party's image in the country is much less positive than it is in the rest of the world.

There are several reasons for this. One is that the party is a new arrival on the national scene. Most of Turkey's opinion-formers grew up in an earlier world and have prior personal loyalities.

Another liability is the mixed record of the Motherland Party in local government. In many cities, including Ankara itself, popular suspicions of widespread venality go hand-in-hand with exasperation at municipal incompetence at such tasks as keeping roads open and supplying fuel in winter.

Another weak point is the press. Mr Ozal is probably more unpopular with the daily papers than any Turkish prime minister before him. Turkish journalists blame this situation on the Prime Minister's officials. The Government shrugs off its unpopularity with the press by heavy reliance on the state controlled broadcasting media.

Yet, press hostility may have been among the principal reasons why, despite a good record in office, the Motherland Party's share of the vote sank to little more than a third of the electorate in November. If the opposition had been less divided, this could have been a dangerously low level.

Still, Mr Ozal has a mandate which probably no prime minister since Adnan Menderes in 1950 has enjoyed. He is likely to use it re-organising the administration, beefing up departmental ministries by introducing junior ministers, and shifting state investment gradually away from infrastructure towards human resources, such as health and education, both areas in which Turkey is relatively backward.

The first Ozal government brought electricity and telephones to all villages in the country. The second one is pledged to give them drinking water.

Supplying drinking water creates jobs just as earlier public works programmes did. It is also among the amenities which helps keep the rural population from streaming into the cities as it did in the 1960s and 1970s.

Education is likely to be another priority. Turkish Lycee education is now recognised to fall short of the needs of school-leavers in an industrial society. Political and Islamic fundamentalist influences have made the Ministry of Education one of the weakest in the country.

Many parents side-step the formal educational system by sending their children to study for long hours in private tuition schools to fill the gaps left by the state lycee system.

Tackling such problems will mean that Mr Ozal will have to be sure, as he was evidently not sure in his first term in office, that he can proceed regardless of the Islamic fundamentalists in his party.

But currently the mood of his party and the country is less preoccupied by religious fundamentalism than it is by the need for rapid development.

Political scene

Changing the mould

THE MOTHERLAND Party's election success on November 29 was a famous victory which is likely to change the shape of Turkish politics for many years to come. Mr Ozal can count on 292 seats in the 450-member Parliament, as against 99 seats for the Social Democracy Populist Party (SDPP), larger of the two main opposition parties.

Politics for the next five years in Turkey should be an easy ride for the government, unless either the MP falls apart or there is serious opposition to the government in the country as a whole.

Neither prospect looks very likely. However the election results have given the MP some food for thought. The party sees itself as a natural majority party and wants to stay in power till the year 2000 and beyond.

Its actual showing in the polls however suggests that it has still some way to go before it can be sure of this. The party took a not very impressive 36% of the popular vote, several points less than it had been hoping for.

In fact, if Turkey still had proportional representation, the country would at present be witnessing protracted coalition bargaining in a three cornered tussle between Mr Ozal, his rival and former master, Mr Suleyman Demirel, and the Islamic revivalist, Mr Necmettin Erbakan, whose Welfare party polled 8% but did not get into parliament.

This was thanks to Mr Ozal's secret weapon, the 'double barrier electoral system' which he introduced last year. The system means that to get into parliament, a party has first to get 10% of the national vote and then clear a second hurdle, a barrier in each constituency equal to the number of votes cast divided by the number of candidates standing.

So in a six member seat, candidates must get at least 16% of the votes, while in a three member one they need 33%. The system helps the largest party, handicaps medium sized ones and eliminates small parties.

There has been some indignation among the opposition politicians at the system which gave Mr Ozal 65% of the seats in Parliament with only 36% of the votes. But the outrage is muted for two reasons.

First of all, Turkey has been spared a coalition, a form of government which proved disastrous in the 1970s. Secondly, the system should mean that henceforth political extremists and eccentrics of the far right will not be able to get into parliament. The same will apply to the far left if it is ever allowed to field candidates again.

Meanwhile, the MP is looking forward to five years in which it will be even more dominant in parliament than it was in the outgoing one. It no longer has to fear rivals waiting in the wings and Mr Ozal should have no difficulty in maintaining party unity. Until last month's elections, the MP had an artificial look to it. That has now gone.

This raises doubts about the future of the True Path Party (TPP) of Mr Suleyman Demirel which also claims to stand on the centre-right. A year ago the TPP believed itself to be the main centre-right group in the country and hoped to pull abreast of Mr Ozal in the elections.

These hopes were dashed firstly by Mr Ozal's deft tactical work during the summer when he held a referendum on whether or not to let Mr Demirel and the other politicians banned by the military return to active politics. There was a 'yes' vote, but only by a humiliatingly slender majority of under 0.2%.

Mr Demirel entered the election campaign, demoralised and with his credibility dented. With 59 seats in Parliament, he may now find it hard to hold his party together.

Assuming he does not decide to retire(something that few Turkish leaders ever do) he will have to stave off attempts by Mr Ozal to break up his party.

Defections from the SDPP which remains the chief opposition, under Professor Erdal Inonu, are not out of the question either. The party has a quarter of the votes but only 99 deputies, and so has very little influence.

It might have had double the number if the 1970s social democratic leader, Mr Bulent Ecevit, had not decided to set up his own breakaway party. It picked up 6% of the votes - but ruined the SDPP.

A tearful Mr Ecevit has since announced plans to leave politics, a move which has brought catcalls from his former colleagues on the left, and drawn expressions of regret from the MP – which owes about 60 deputies to Mr Ecevit splitting the left of centre vote.

Crossing the floor is in theory against the Constitution in Turkey but in the last Assembly, it happened almost every day.

A question mark might hang over the attitude of President Kenan Evren to any changes. To date, the President has generally gone along with Mr Ozal's wishes where controversial legislation has been concerned. But in an interview soon after the elections, he gave a clear signal to the prime minister that this might not necessarily be the case if major changes were in the offing.

However with a strong majority in Parliament, it should not be difficult to overturn a presidential veto. In any case, President Evren's term ends in November 1989.

Many believe that Mr Ozal would like to succeed as president, becoming only the second ever Turkish head of state not to come from the Armed Forces.

This might suit the Prime Minister well. He had a triple by-pass heart operation last February and, though active, has to watch his health. He is known to want to institutionalise his reforms which until now have been strongly identified with him personally.

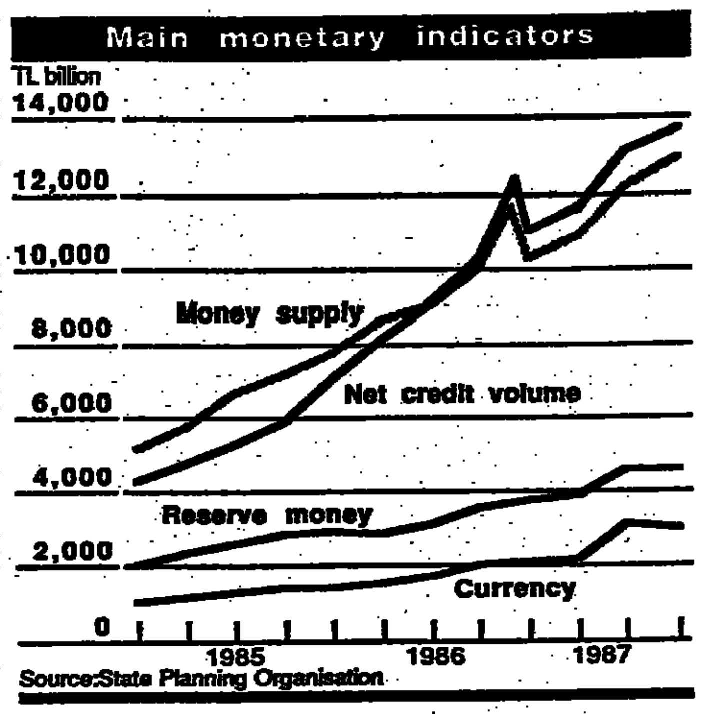
As President, he could hand over day-to-day running of the country to a prime minister of his chosing.

Turkey has never had such a hand-over inside a ruling party since World War Two. But Mr Ozal is fond of pointing out that such things happen frequently in Japan.

David Barchard

Economic prospects

Fair but fragile



A FIRST GLANCE at the figures might not suggest it, but 1987 has been rather a lucky year for the Turkish economy, unlike 1986 when exports stagnated and the current account deficit ballooned. This year has been an election year with economic priorities by and large subordinated to political ones.

As a result, Mr Ozal's new administration will have quite a lot of clearing up to do after the party of recent months. How thoroughly things are set straight in the first half of 1988 could determine the long-term success of the Government's economic strategy.

This year public spending controls were relaxed and during the autumn virtually all prices were held down - until two days after the election. The money supply expanded faster than usual: M1 grew by 44 per cent between January and mid-November, while M2 grew by 30 per cent. The budget deficit rose by 127 per cent to TL 1,118bn ($1,140m) despite a 48 per cent rise in tax revenues.

This budget deficit, around 2.0 per cent of GNP, does not look especially alarming by standards of the Organisation for Economic Co-operation and Development. Unfortunately it is only the more publicised part of the story.

"If you include in the public sector deficit such items as the state economic enterprise deficits, the extra-budgetary funds, province and municipal expenditure, the state banks, and so forth," says one official in Ankara, "then you end up with an overall deficit which is much higher, around TL 8,000bn ($8.2bn)." That is more like 15 per cent of GNP. Turkey's runaway inflation becomes less of a mystery.

The deficit is only partly financed through visible means such as Treasury Bonds (which in 1986 alone grew by 173 per cent). There are also long-established ways of tapping Central Bank funds, for instance by over-recording budget allocations to authorise automatic borrowing.

All these figures are not quite as startling or alarming to Turks as they may look to anyone not familiar with the economics of a country in which M2 grows by more than 50 per cent most years and it is hailed as *annus mirabilis* when inflation dips below 30 per cent. Inflation this year, not surprisingly, is nowhere near 30 per cent.

Exactly what you think inflation is running at in Turkey depends on whom you listen to. The country's economic statistics are notoriously elastic and inconsistent. In the first week of December, the available estimates for the previous eleven months varied between 36 per cent and 57 per cent, the latter admittedly being a figure for Istanbul alone. Government price rises in the same week seemed to suggest that the annual rate could be around 50 per cent as against a long-forgotten target of 20 per cent at the beginning of the year.

Only one other year, 1984, has been as bad since Turkey descended from three digit inflation in 1980.

The Government will have to spend much of 1988 bringing the money supply and public sector spending back under control.

Meanwhile it can console itself with the good news, which is that on the balance of payments front, things look surprisingly healthy. Exports were running at over $1bn a month during September and October and may well pass $10bn by the end of the year, well above the previous export record of $7.9bn in 1985.

The current account deficit which was $1.5bn in 1986 is likely to be around $850m this year. In August, the last available month, it was around 25 per cent of the 1986 level.

This is welcome news, since Turkey's creditworthiness hangs on its exports and current account performance. The country ran a trade deficit of $3bn last year, and plans trade deficits for the foreseeable future as part of its strategy for rapid growth.

This year the economy has been growing by about 6.8 per cent on a much reduced current account deficit, a somewhat healthier performance than last year's 8 per cent growth with a mushrooming deficit.

Just why exports are growing so fast this year and to what extend Turkey is experiencing real export-led growth rather than a pre-election consumer boom are more ticklish issues.

Export growth seems to be coming chiefly from textiles, iron and steel, leather, petrochemicals and chemicals, with textiles playing by far the largest role and accounting for about 27 per cent of total exports.

Most Turkish exporters are fairly small. The top ten Turkish exporters include firms exporting under $30m, while Turkey's industrial giants, Koc and Sabanci, exported only about 6 per cent of their turnover in 1986 and are largely oriented to the home market.

Most Turkish exporters are also strongly responsive to subsidies and incentives. Exports subsidies, which were being scaled down earlier, seem to have been stepped up again in 1986. But official figures suggest that they play a small role.

The geographical distribution of exports may give a better clue to what is going on. Exports to OECD countries this year are about 66 per cent of the total, while exports to EC countries are exactly half. This is about 10 per cent higher than in the mid-1980s.

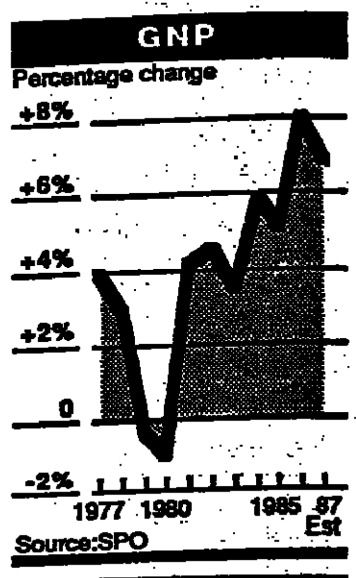
Since there is a substantial leap in the volume of exports to the OECD and EC countries, the increased proportion of trade with them does not simply reflect the decline of Turkey's windfall Middle Eastern markets of the early 1980s. The present figures look rather like the geographical distribution of Turkish exports in the 1970s, but in those days two thirds of exports were agricultural, whereas today 80 per cent are of industrial goods.

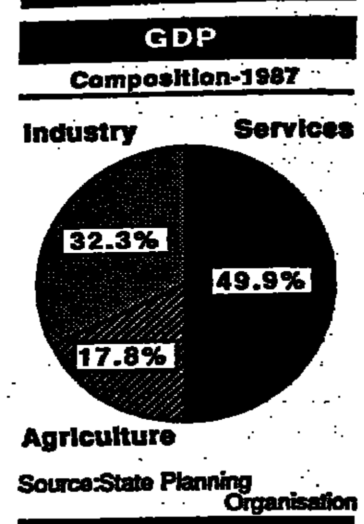
So it may be that Turkish industrial exporters, having cut their teeth in relatively easy Middle Eastern markets in the first half of this decade, have now learned how to penetrate OECD markets successfully, despite grumbles about quotas and other barriers.

A continued good export performance is crucial if Turkey is to be able to handle its foreign debt burden. The debt service ratio in the first half of this year grew to an uncomfortable 43 per cent with repayments of principal and interest of about $3,172m between January and August.

The total external debt has gone up from about $31.2bn at the start of the year to nearly $34bn at the end of it, though a lot of this is explained by the decline of the dollar. Export earnings by contrast will be $10bn this year and GNP is roughly $54bn.

This is clearly a situation which calls for very careful management, but until recently economic policy has not been well co-ordinated, even allowing for the pre-election atmosphere. Nor is there any public opinion to speak up when Turkey announces its intention, for instance, to manufacture military helicopters at a cost of several million dollars.





Plans to set up a body which would review all foreign borrowing and create a queuing system for projects and payments have been in the air for some time. The institutional will to push them through seems to have been lacking.

So if Turkey really wants to go for soundly based sustained rapid growth in the 1990s, rather than press on with the inflationary muddle, it may have to do some painful breaking with habts.

Tighter borrowing and fiscal policies will hurt many pockets, not all of them undeserving ones. In a society where a professionally successful heart surgeon in his thirties may be earning only $150 a month and there is no unemployment insurance, there are obvious social and political risks to getting tougher.

But loose credit policies claim victims too, even if they are not always as obvious as the credit manager of one of Turkey's state banks who, unable to stand the strain of dishing out pre-election goodies, died of a heart attack this autumn at the age of 43.

David Barchard

The men around Mr Ozal

Princes await call to duty

THE PRIME MINISTER, Mr Turgut Ozal may look like a one-man-band to the rest of the world. To many Turks, he looks more like a Sultan surrounded by princes.

Borrowing his style of administration from Turkish private sector companies, the Prime Minister relies heavily on his family, trusted old friends, and a growing number of newly-recruited advisors.

He seems seldom to quarrel with his advisors and is very loyal to old friends. As a result, he is cocooned by a network of ministerial colleagues and officials each with a personal link to him.

His choice of who fills which slot will depend on these connections. Three top names are Professor Ekrem Pakdemirli, head of the Treasury till 1986, Adnan Kahveci, until recently Chief Advisor to the Prime Miniser, and the Premier's brother, Yusuf Bozkurt Ozal.

These - and a few other veterans - go back to the Prime Minister's days in the civil service.

"The distinction between the old-timers and the men who have surrounded him later" says one Turkish observer "is that the former can — and do — disagree with him openly. A lot of the later arrivals are basically yes-men who cut him off from access to hard information."

All three were elected to parliament in the general elections and are likely to get ministerial posts. Yusuf Bozkurt Ozal is the candidate many would favour for the post of deputy prime minister and economic policy co-ordinator.

This was held in the last government by Mr Kaya Erdem, but Mr Erdem listened to the state banks and bureaucrats more than the economists around the Prime Minister would have liked. "He played the role of soft policeman when he should have been a hard policeman," says one banker.

Mr Erdem also blocked for many months the appointment of Dr Rusdu Saracoglu as Governor of the Central Bank. He may now be shunted into the honorific post of President of the National Assembly.

Exporters would be happy if Mr Pakdemirli were placed in charge of industry. As for Mr Kahveci, he could be anything from the government spokesman to Minister of Education - but he is reputed to believe that the latter post could be politically fatal. A departmental ministry would force him to abandon his wide-ranging role as a general strategist for the Prime Minister.

On the other hand, he looks like one of the few men capable of creating an effective education system for Turkey.

Another key appointment will go to the Prime Minister's cousin, Mr Husnu Dogan, Minister of Agriculture in the last government and a close confidante.

The Prime Minister's son, Mr Ahmet Ozal, has helped introduce a succession of bankers and economists to the Prime Minister and has pushed hard against the older style bureaucrats in the government for more economic reform.

On the eve of the elections, Mr Ahmet Ozal was reported to be 'headhunting' for able young Turks working in the US and Europe to return to senior posts in Turkey. The reformers believe that the power of the traditionalist bureaucrats can only be achieved by bringing the number of Western-minded market-minded technocrats above a critical level and changing the character of the upper echelons of the civil service irreversably.

Mr Ozal's cabinet is still likely to contain many of faces from the last administration. Debts of party loyalty aside, there is, says one Turkish administrator "a tradition in Turkey of relatively dull ministers. The civil servants are often of a higher calibre because prime ministers are frightened of raising up rivals to themselves."

One administrator Mr Ozal has not been able to lure back into the government, though he would probably have loved to have done so is Mr Yildirim Akturk, once Mr Ozal's No.2 at the State Planning Organisation. Vetoed by the military in 1983, he chose to go into business in Istanbul. Yildirim's departure was a serious loss for the MP.

Mr Ozal plans to create junior ministers to work alongside cabinet ministers, which would expand the range of patronage inside parliament considerably. He will also gradually change the heads of many state agencies and banks, a process which began in the months before the elections.

The preference for young, internationally experienced Anglophone figures has provoked some reaction from the bureaucracy, but so far less than might be expected. The turnover at the top in Turkey's civil service has always been rapid by European standards.

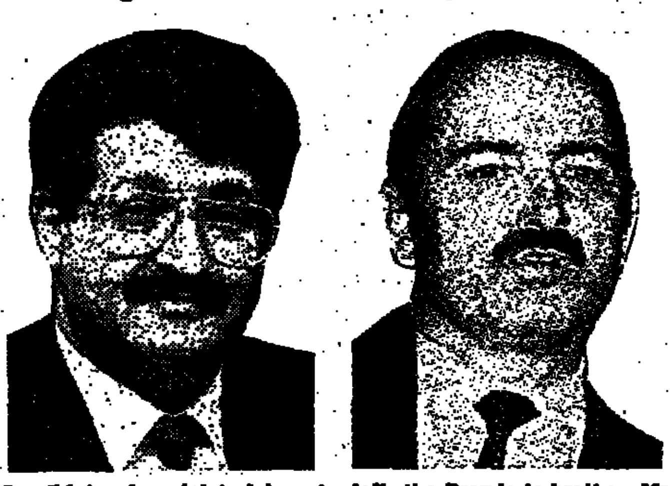
During the first Ozal government, a new system of contract payment was introduced which has made it easier to bring in well-qualified appointees from outside and pay them properly.

The second term in office is likely to see more institutionalisation, partly because the size of Mr Ozal's new elite is growing and party because the prime minister may gradually distance himself from some day to day business. Even so, the web of personal connections will remain important.

There may also be a tendency to look to the Prime Minister's younger brother as the heir apparent, though it may not be a role which Mr Yusuf Ozal, one of the most open-minded and modest men in Turkish public life, relishes. Like many of the men around his elder brother, he still gives the impression of caring more about economics than politics.

David Barchard

Mr Turgut Ozal:"a sultan surrounded by princes"?



Candidates for ministerial posts: left, the Premier's brother, Mr Yusuf Bozkurt Ozal; and, right, Prof Ekrem Pakdemirli, head of the Treasury until 1986.

Financial sector faces deposit-rate competition

New medicine for banks has disagreeable taste

COMPETITION ON rates for term deposits returned to the Turkish banking sector on July 1 this year. Hailed by some economic policy hawks as the panacea for Turkey's ailing financial sector, the large commercial banks are finding that the new medicine has a disagreeable taste.

The Turkish banking system has spent the 1980s trying to get used to realistic interest rates. Ten years ago, you could borrow money for a year in Turkey at around 15 per cent to 20 per cent, while if you placed your savings in the bank for a year, they would bring you about 12 per cent. Inflation ran many points above all these figures.

Today if you borrow money in Turkey you are likely to end up paying 78 per cent to 80 per cent a year for it. Lending rates have been negotiable for four years.

So too are some deposit rates now. Last March you would have got a flat 43 per cent for one year money in the bank. Today you should easily be able to get 56 per cent for it (the average rate) and perhaps even 60 per cent if you are brave and bargain hard.

This is not the first time that Turkey's banks have been introduced to deposit rate competition. Mr Ozal tried it as long ago as 1980. The banks did not like it at all and responded with a 'gentleman's agreement' not to compete with each other.

This time competition has broken out and rates to depositors quickly started to climb after July, though it did not take long for the discovery of a ceiling around 58 per cent to 60 per cent, dictated largely by other components in the overall cost of funds.

Interest rate competition has been fiercely debated in Turkey for several years. Economic purists see it as the way to weed out the market and bring down rates in the medium and long term. But a lot of the market isn't happy at being weeded out.

Roughly speaking, Turkish banking divides into the large commercial banks (private and public) and small operations.

The smaller banks tend to be new arrivals, with few branches and limited deposit bases. They try to find niches in the market, such as trade finance, and often model their activities on the phenomenal success of the foreign banks in Turkey.

One example: BNP-Ak, a joint venture between the Akbank and the Banque Nationale de Paris, announced two years ago, will complete this year with profits of TL5bn ($5.1m) on capital of TL10bn.

The large commercial banks have broad deposit bases but old fashioned operating methods and in some cases high percentages of bad loans in their portfolios, often because they woke up too late to the new interest rate environment.

Economic purists see interest rate competition as the way to "weed out the market" and bring down rates in the medium and long term.

Of total bank lending of TL12.9 trillion ($13.1bn), a high percentage is non-performing. Current guesses place it anywhere between 10 per cent and 35 per cent.

The bad debts problem will not go away, at least until rates to borrowers come down to less risky levels. Even in the balance sheets of the foreign banks, non-performing loans have started to show up. "The foreign banks have more non-performing loans than they say," warned one foreign banker.

In this shaky situation, it took months of deliberation before the Government took the plunge and freed rates on one year funds. Last year in fact itcut rates to depositors not just once but several times, so that interest on one year deposits came down from 55 per cent in March 1986 to 43 per cent by last March. At this point inflation started climbing sharply and the experiment was discontinued.

The new deposit rate system means several things. Firstly, rates to borrowers have started rising again, though only a few banks have reacted as quickly as the Iktisat Bankasi.

Secondly, the corporate bond market, flourishing in the first half of this year, has been hard hit. Several banks were trying to undercut their competitors through bond issues, something that is not possible in a high deposit rate environment.

"We have to sell bonds at higher prices than deposit rates, so the cost of issues has gone up," says Mr Erol Aksoy at the Iktisat Bankasi. He believes however that the effect may be only temporary.

Thirdly and most importantly, the cost of funds has been pushed up and profitability has been cut. "There is a TL700bn ($714m) cost to the sector," says Mr Burhan Karacam, since last August the general manager of the Yapi ve Kredi Bankasi. "This is higher than the total profits of the banks in 1986 and its adverse effects will be clearly seen in 1988."

Mr Karacam says that the banks need to maintain high profits to finance their future development in an inflationary environment. "We have to have a profitable banking system," he explains.

In search of profits (Yapi Kredi expects to make about TL50bn or $51m in 1987 on paid up capital of TL70bn), the bank is diversifying into money markets, investment banking, trade finance, and personal banking services.

Yapi Kredi's profits are still a long way behind those of its chief competitor, the Akbank, where the vice chairman Mr Erol Sabanci reports that profits have gone up this year by 51 per cent in dollar terms to $150m. The bank has just increased its capital from TL 150bn to TL 250bn.

Mr Sabanci is unhappy both with the high interest rate environment of the last seven years and with what he sees as disorder in the market. He points out though that the new deposit rates hurt banks which rely heavily on term deposits but are easier for banks like his which have a large volume of sight deposits which bear interest of only 10 per cent.

At the other end of the market are the small banks, some like the Turk Ekonomi Bankasi, cautiously managed, profitable, and able to boast of still having had not a single non-performing loan on its books.

Among the better managed medium and small banks, novelties such as audited half year and quarterly statements are beginning to appear, from banks such as Garanti and Demirbank.

However with banking still risk-free and largely unpoliced in Turkey there are other sorts of presence on the market. You can offer 12.5 per cent on dollars in Turkey, report losses for several years running, and still, apparently, have little to fear.

New entrants crowd into the market (six banks were set up this autumn. Only one of them, the Yatirimbank, looks set to make much of a mark). Most hope to use the young interbank market to fund themselves for investment banking activities and trade finance.

Potential failures know that the Treasury, and the State Banks, are always there as a safety net (albeit a sagging one after the failures of recent years.

These days however some problems are cropping up which direct government intervention cannot solve. Early last summer one of Turkey's major industrial groups, Anadolu Endustri Holding, was unable to pay debts totalling about TL160bn ($163bn) to a group of banks led by the Turkiye Is Bankasi.

AEH is a well-managed group and there is general agreement that after financial restructuring, its operations would be profitable under the existing management. Is Bankasi was able to work out a rescheduling for its debts. The other banks decided to do things individually and, as one banker puts it, "there was a scramble to get out of the room first."

Conflicts erupted on all sides and the future of the group is now cloudy. "The banks should have appointed an outsider to do the restructuring," says more than one banker. "But they haven't reached the point where they can do that."

Still, the sector is learning from experience. A new generation of bankers with modern skills, many of them trained at the CBIS International Banking School opened in Istanbul last year, is emerging.

"Standards and the quality of people are rising and regulatory powers are growing. Doom and gloom are definitely not the right attitude," says a veteran observer of the Turkish banking scene, Mr Peter Poullada of the Istanbul Office of Bankers' Trust.

David Barchard

Merchant banking

Growing range of services

WHEN DR VURAL AKISIK, vice chairman and managing director of the Istanbul-based Interbank describes recent developments in Turkey's capital markets he begins at the beginning. With the Ottoman empire.

"Istanbul was a highly significant financial centre at the end of the last century, but after World War I, Turkey closed its doors. What is happening now is a revival of the spirit of the last century, rather than something new."

What has been happening is the growth of capital markets, privatisation and encouragement for Turkey's traditionally family-owned bigger private businesses to go public.

The extent and success of these developments has yet to be seen, but there can be no doubt that Turkey is trying to open doors - both internally and to the rest of the world - and this is creating demand for institutions offering merchant banking and investment finance facilities.

Turkey's first examples of merchant banking were provided by the overseas banks which came into Turkey in the early 1980s. But local institutions have moved quickly with the trend and a number of Turkish banks are now offering specialised investment finance services.

One of the most urgent jobs for the Turkish government and financial institutions is to persuade a gold-hoarding population to have more confidence in capital markets.

"I have no doubt that small under-funded businesses in Turkey could grow into bigger ones with proper finance" says Dr Akisik. "Scale is lacking in Turkish businesses. Scale is lacking because capital is lacking. Capital is lacking because capital markets has been lacking."

He illustrates the problem of scale by telling of a US client who was interested in acquiring a "small-to medium-sized" Turkish textile company with a $40m to $75m turnover. In Turkey, a company of that size counts as large.

Stability, including control of inflation, and adequate internal financial markets are Dr Akisik's pre-requisites for opening the doors further. "Once people see paper can be a valuable commodity like gold which earns profits you can begin the gradual introduction of equity markets. Then there will be a need for good investment bankers but it has to be gradual. Things are not about to suddenly explode."

Gold is a serious practical as well as symbolic problem. A remarkably large amount of it is held in private hands in Turkey, given the nation's low per capita income compared with Western Europe. Bankers and industrialists agree that the capital which private citizens have tied up through the years in gold as a hedge against inflation and instability is needed in the economy.

Gold-hoarders need to be persuaded to have more confidence in capital markets.

One of the hopes is that the Government's privatisation programme, if successfully marketed, will convince people that industrial investment can be profitable. Mr Adam Arda, a banking consultant would like to see a premium offered in the privatisation programme to those willing to trade in their gold for shares in the telephone equipment, cement and other industries awaiting privatisation.

"Capital accumulation is one of Turkey's big problems," he says. "Lots of surplus capital gets lost in gold. Ways have to be found of getting that gold back into the system and the privatisation issues offer an excellent opportunity."

Tekstilbank, one of Turkey's newly formed investment banks will be involved in the privatisation programme at an early stage. It is acting as consultant on the proposed sale of state tourism facilities with Morgan Grenfell, which includes the privatisation of British Transport hotels in the UK among the schemes on which it has advised.

The Government will be offering for sale a collection of hotels, motels, camping sites, marinas and holiday villages which, it is hoped, will attract foreign as well as Turkish capital.

During its first year of operation Tekstilbank handled the first-ever syndicated commercial paper issue in Turkey worth Tl 15bn for the Toros fertiliser and chemical group. Mr Ali Kaplan, general manager of the bank, believes that the deepening of Turkey's capital markets being promoted by the Government will continue.

Government approval for the establishment of Tekstilbank was based on the fact that it is focusing on trade finance and investment banking, areas which the state is determined to develop.

Bankers Trust is currently launching a joint venture with Is Bank, Turkey's largest private commercial bank, to play a wide-ranging capital market role. One of its specialities will be advising foreign companies seeking partners in Turkey.

"I am very confident and satisfied that the Turkish government and central bank are committed to structural reform of the capital markets," Says Mr Peter Poullada, Bankers Trust vice president in Istanbul. "I have lots of confidence that they know where they want to go and how they want to get there."

The belief that Turkey's capital markets are indeed embarking on what will prove a dramatic period of reform and growth is shared by Mr Husnu Ozyegin, general manager of Finansbank, the country's newest merchant bank.

Finansbank began operations this autumn aimed directly at the corporate market. Its specialist staff plan to assume the role of financial consultants to their business clients, helping them find better ways of solving their financial problems. Activities will range from conventional trade finance and loans to concepts new to Turkey like mergers and acquisitions, equity and capital market activities, government bond trading and corporate syndications.

These activities still have a long way to grow in a country where pension fund investment normally means putting money on deposit and leaving it there, while, in retail banking, personal loans are still almost unknown. But Mr Ozyegin is convinced that the structure is changing and he, like Mr Akisik with his references to the Ottoman empire, quotes the past in his support.

"I recently discovered some Suez Canal shares held by my grandfather 100 years ago. Turks understood financial markets then. We understand them still and the pace of change which has begun will get more and more rapid."

Alan Pike

Turkey's biggest commercial bank seeks a new image

Quest for a better identity

TURKEY'S LARGEST commercial bank, Is Bank, has an identity problem. Last month, the bank called in a New York communications consultancy, Lippincott and Margulies. Although outwardly all appears well, there is a view that the bank, at the age of 63, is facing a mid-life crisis.

The internationally advertised message from the bank announces that "Is, in Turkish...means business."

The bank has an extensive branch network - 933 branches today and still rising, compared to two when it began in 1925. Its personnel total has risen from 37 people, 63 years ago, to more than 20,000 today.

The bank's annual report, published last March, shows that gross income increased by 32 per cent to Turkish Lira 928bn, with profits, after tax, up by 9 per cent to TL 35.2bn.

Total lending rose 53 per cent to TL 2.8 trillion, and deposits were up by 59 per cent to TL 3 trillion. Any figure from the accounts (which are not independently audited) project a similar message of health.

Furthermore, Is Bank's list of equity participations is impossible to give at any length. It holds more than 50 per cent of shares in 15 major Turkish corporations and has a stake in over 100 companies.

Is Bank, in its role of development bank and provider of scarce capital during the early years of the Republic, launched the first factory in many sectors - for example, a bottle and glassware plant in Istanbul in 1934.

The bank today has equity participation in 12 of Turkey's 50 banks, including joint ventures with foreign banks, such as the Arab-Libyan Bank, and it is setting up a merchant bank with Bankers Trust.

To further understand the nature of Is Bank, one must also look at the shareholders' profile: 35.9 per cent of equity is held by the bank's Personal Pension and Mutual Aid Fund - which means that retired employees, widows and orphans constitute the largest shareholding body.

The second largest share, 28.37 per cent, now belong to the the President of the Republic and are managed by the Treasury, which has a further 12.12 per cent stake.

The remainder of the shares are owned by individuals - often Turkish workers abroad. The board includes branch managers, but not by one representative of the many companies in which the bank holds a stake.

The affable deputy executive manager, Mr Unal Korukcou, is at pains to stress the social responsibility shouldered by the bank which provides 100,000 jobs, representing the livelihood of half a million people.

He argues that Is Bank keeps its own resources in equity participation because it gives the bank "a chance of controlling the use to which its loans are put." He insists that the bank cannot think solely in terms of profits - it must act as a "fireman" for Turkey, helping out in sectors which run into difficulty.

What are the operating profits of Is Bank? - "we prefer to accumulate hidden reserves, it is difficult to say," says Mr Korukcu.

Is it not time to have an independent audit? "Not yet."

Is Bank managers, such as Mr Ahmet Ayaydin, stress that the bank does sometimes divest itself of certain shareholdings. For example, it sold its 10 per cent stake in the Istanbul Sheraton last summer.

To keep a close eye on business developments, the bank tends to appoint retired senior members of personnel to the boards of companies in which it has a stake.

With the liberalisation of foreign exchange transactions in the past few years, the Central Bank has at times found itself short of foreign currency - Is Bank will step in and lend it the necessary amount.

When Is Bank offers pre-export finance, it is often at a margin of Libor, plus 3 to 3½ per cent. Other banks offer Libor plus 1.75 per cent and are asked to cede their foreign exchange at that price to Is Bank if they are jointly financing an exporter, all of which makes an easy profit for Is Bank.

One old Turkish hand who has dealings with Is Bank claims that the state giant puts "tremendous pressure" on companies with which it does business not to allow any other bank to have dealings with them.

Is Bank does, of course, offer unparalleled skills in operating within a very heavily regulated banking system. It was born in such a system and, for many decades, acted as a major tool for development.

The new interest rate climate has had some surprising consequences for Is Bank's empire. When companies are unable to service loans, real estate or physical plant, given as collateral, is absorbed into the bank's assets.

In many ways, Is Bank would appear to mirror some of the ills that Mr Turgut Ozal's more liberal policies are seeking to address.

The Prime Minister recently suggested that part of the bank's interest in the glass sector could be sold, no doubt as a way of raising fresh capital.

Managers of Is Bank accept that their equity participations are under-valued. The answer may be to set up a rating company, which the government has recently asked Is Bank to do.

Is Bank has, over the years, served Turkey well and no doubt will continue to expand - for instance, it is soon to set up a leasing company with IFC and Societe Generale.

Francis Ghiles

Banks invest in further branch automation and electronic data services

Advantages become more visible

THE CYNICISM of the Turkish public is understandable. Dealing with the country's banks is usually a laborious process - few computers in sight, queues, delays and laborious paper work. Many Turks therefore discount the image the banks present of themselves as staffed by tellers happily manipulating computer terminals to provide instant smiling service.

But recently the banks' investments in electronic data processing are beginning to yield results. The customers of banks such as Akbank, Pamuk Bank, Turkiye Is Bankasi and Yapi Kredi are now finding that branch automation and electronic interbranch transfers have become a reality.

Turkey's banks have long been a key target for sellers of hardware and software. They account for around one-half of the installed mainframes in the country and, as branch automation proceeds apace, an even larger share of the micro-based systems.

The banks have naturally started by computerising their back-office functions such as accountancy and personnel records. Most have chosen IBM machines, in particular the 4381, but, as they have begun to integrate branch activities, have been finding the need for larger machines such as the 3090.

Unisys/Burroughs have also made some major sales. At branch level, Mixdorf and NCR with its Tower System have been the market leaders.

Where software is concerned, some banks have sought to develop their own - and usually have run into drastic problems which they are only just solving.

Other banks, such as Iktisat, have bought ready-made packages, adapting them to Turkish and to Turkey's elaborate banking procedures. A third solution has been turning to foreign banks for help, though in one case involving a US bank the quality of help provided was found unsatisfactory.

Some of the problems encountered have come from the banks' antiquated systems - "I came across one case of a bank requiring 47 different documents for one particular transaction," says Mr Cengiz Ultav, a leading Istanbul-based computer consultant.

In other cases, problems have come from the weakness of the telecommunication network. Here, in the past two years, the introduction of digital switching and, slowly, of optical fibre cables hass improved quality, allowing the use of switched lines as well as of leased lines.

Indeed, the main complaint today is at the level of PTT charges. The PTT itself is now renting out modems made by Nokia of Finland, while other successful companies in this area include Racal-Milgo (represented by Saniva) Telindos (represented by Bilitam) and Codex.

The opportunity for software vendors is large, according to Mr Ahmet Betil, director of Boss Yazilim. His company represents Software AG of West Germany, a supplier of fourth generation packages designed to help customers to develop their own data base management and other systems.

Boss has signed three contracts with banks in the past year, while another company active in this market is MSA of the US, which is working with the local software house TES. Also a new feature of the market is the availability of software developed in Turkey.

NCR has developed a package for branch automation in conjunction with Pamuk Bank and is now marketing this with third parties. Most banks' eventual aim is to go fully on-line, a target which will open up demand for cash point machinery and software.

At present, apart from Ak, Pamuk, Is and Yapi Kredi, Iktisat and Uluslararasi (Interbank) have made good progress. The state banks are generally lagging and at best are working in batch mode, that is with branches sending tapes or diskettes to head office.

One of the difficulties is that most settlement between the different banks is done physically, with cash and cheque being trundled from bank to bank - a legacy in part of the deep distrust most Turkish banks have for each other.

This may change as the banks continue implementing their own systems and adapt in fully computerised form the uniform accounting system imposed by the Central Bank in 1986; at present most if not all give their weekly or monthly reports to the Central Bank in hard copy rather than electronic form.

Another factor for change will be the banks' eventual incorporation into SWIFT, the European settlement system. Around 20 Turkish banks have so far been accepted for inclusion into this, with operations due to start next winter.

David Tonge

New Stock Exchange building in Istanbul

Symbol of a promising future

OPENING a new stock exchange building with full fanfare in the midst of a world-wide equities crisis might seem unfortunate timing. All the more so when the fledgling Istanbul market had itself been in steep decline since the late summer.

Yet for the market authorities the modern exchange at the mouth of the Golden Horn is a symbol of a promising future to be built on strong corporate growth and foreign investment.

With the first step on November 16 the doors opened on a new trading system. Instead of a quiet two or three sessions each day spent matching written buy and sell orders there is now the din of a continuous auction involving about 120 dealers on a crowded trading floor with its own big board.

Both volume and prices picked up dramatically immediately after the official opening as investors demonstrated confidence in the new system and flooded back into the market.

They had abandoned it in droves only three months earlier after the index hit a giddy peak of 1,332 - more than seven times its value at the start of the year.

The speculative bubble burst amid rumours that the Government was about to dump stock on the market under its privatisation programme. The Gulf conflict, uncertainty over the general election and the global collapse of share prices in October then took their toll and the index lost more than half its value, tumbling to a low of 575 in early November.

Most Turkish investors are newcomers to the stock market in an Islamic country with little tradition of share trading. The tiny exchange, similar in size to the Athens market, was only revived in December 1985 after being dormant for some 60 years.

In a thin market where as few as 50 shares are actively traded, price gains are easily exaggerated. The summer euphoria fed on itself, helped along by lower interest rates on bank deposits and a tax holiday on share dividends and capital gains.

Yet despite the harsh correction, stock market officials are speaking of a "cautious bullishness" based on hopes of a better post-election investment climate. "We believe that the Government will issue a decree to enable foreigners to invest freely in our market," said Mr Muharrem Karsli, chairman of the exchange.

In theory there are no obstacles, but in practice both the tax position of foreign corporate investors and the right to repatriate capital gains have been clouded in uncertainty.

Foreign interest is none the less strong. Ottoman Bank, which handles Turkey's 5 per cent allocation in the EBC-Amro Mediterranean Growth Fund, has so far invested $3m to $4m on behalf of the fund and individual foreign clients. Some clients want to invest as much as $10m at once in this latest 'exotic' market, but the bank is urging caution because of the shortage of liquidity in Istanbul, a senior executive said.

Turnover at the August peak was only $4m a day and dropped to as little as $100,000 during the autumn depression.

Ottoman Bank, which is 46 per cent owned by Paribas of France, says it has worked out a trouble-free system for repatriating its clients' capital which has won approval in Ankara.

But even if the new Government clarifies the foreign investment law - and some observers harbour doubts about its willingness to do so - there will be a host of other obstacles to overcome before the stock market can stand on solid ground.

For foreigners there are no hedging instruments to offset the rapid devaluation of the Turkish lira and ready foreign exchange for repatriating funds is in short supply. There is also little research on Turkish companies, though this can work to the advantage of those with privileged access.

The authorities will have to persuade more Turks to take their money out of traditional havens such as gold or foreign currency and to invest in the market either directly or through the handful of mutual funds. Investors' confidence in industry is probably still seriously inhibited by the high rate of inflation.

Turkish companies, meanwhile, have to be persuaded to put more of their tightly-held stock into public hands. Most have no more than 15 or 20 per cent of their shares on the market.

The privatisation programme could give the market a boost, but only if investors are kept clearly informed of what is happening. Brokers blame the unannounced sale of government shareholdings in a handful of listed companies for the rumours that led to the August downturn.

Despite these qualifications, some brokers view prospects as promising, with price earnings ratios now back at more realistic levels and the new trading system up and running.

Mr Niko Maksimyadis, managing director of Turkinvest (AOG Securities), forecasts steady earnings growth based on demand from a fast expanding population for new products, especially consumer durables.

Foreign institutional investors awaiting their cue from the Government could provide the market with the stability it needs. "There's a lot of interest in Turkey, and I don't think it's going to wane with the decline in stock markets around the world," he says.

Alison Maitland

Central role in economic management for the State Planning Organisation

ANY FOREIGN businessman or banker wishing to do business in Turkey will find that along with familiar institutions, such as the Treasury and the Department of Foreign Trade, he will also spend a lot of his time in one which does not have a counterpart in most other OECD countries - the State Planning Organisation (SPO). The longer he stays in Turkey, the more he will realise its central role in the overall management of the economy.

Set up in 1961, when Turkey opted for planned economic development, the SPO is responsible for drawing up Five Year Development Plans and annual economic programmes, as well as for formulating and co-ordinating economic policies.

With nine departments, it is larger than most departmental ministries, possessing economic functions but no monetary ones.

The SPO's powers were given a boost when the present Prime Minister, Mr Turgut Ozal expanded its role by setting up departments responsible for foreign investment, free zones, and EEC affairs under the organisation's umbrella. Infrastructural projects have to get its approval, as well as that of the Treasury, before they can go ahead.

The current Five Year Plan (1985-1990) was drawn up in line with the Prime Minister's aggressive liberalisation programme. Accordingly, emphasis has been shifted to the private sector, and a gradual relinquishing of the state's role in the economy.

In 1984 he placed his brother, Dr Yusuf Bozkurt Ozal, in charge of the organisation.

Dr Ozal resigned in September to run for Parliament on the ticket of the ruling Motherland Party and is widely expected to be a senior minister in the new Government.

In addition to its crucial role in making economic policy, the SPO has served as a springboard for many a political career, including that of Mr. Turgut Ozal, who was twice at its helm. Many of the Prime Minister's most senior cabinet ministers worked with him in the SPO under the Demirel governments of the 1970s.

The appointment of a new SPO chief will be one of the main pointers for the economic policies Mr Ozal intends to follow during his second term.

Among the names most frequently raised is that of Dr. Ertan Yulek, who like the Prime Minister, is a trained engineer and has, at various stages of his career, served in the SPO. Other likely candidates, are Dr. Ali Tigrel, and Bulent Ozturkmen, respectively heads of the Economic and Social Planning and Foreign Investment and Free Zones Departments of the SPO.

Dr Tigrel, who spent his school years at Holland Park Comprehensive in London, is one of Turkey's best-known officials, internationally, generally identified with the sections of the government which would like to keep GNP growth around a relatively modest 5% mark and ease pressure on the current account.

Amberin Zeman

Profile: the Turkish trading company, Penta Dis Ticaret

A locomotive for export growth

FOR A rags-to-riches tycoon, Penta's chairman, Mr Murat Vargi could not be further from the brash cliche. Orphaned at 13, and a few hard-earned scholarships later, Vargi found himself an academic expert in the specifics of exporting.

After a spell with Ram, the trading arm of Koc Holdings, Vargi set up what has become one of Turkey's fastest growing trading companies with exports this year expected to top $250m.

Established in 1976 with four of Vargi's classmates, Penta moved from number 13 in the trading company league table last year to the top three this year.

In a sector with companies operating on tiny profit margins Penta soared from a profit of US$1m in 1986 to over $3m in the first nine months of this year. The trading companies have been central to the post-1980 export drive but are highly dependent on Government for their status and privileges. These include a generous sliding scale of rebates on export sales and a monopoly in imports from the Eastern Bloc.

It is the trading companies who secure the lion's share of the overseas quotes administered through the Foreign Trade Under Secretariat. In return companies must export a minimum of $50m a year of which 75 per cent should be industrial goods.

According to the Turkish Foreign Trade Association the 30 or so government-designated trading companies accounted for 45.6 per cent of Turkey's export in 1986 compared with only 9 per cent in 1981. Many took the privileges as a licence to print money and now find the chickens have come home to roost in the shape of impossibly low profit margins. Some expect a radical thinning out of the trading companies in the near future.

Murat Vargi suggests that the pantheon of 30 might eventually dwindle to as few as 10, as the bigger groups begin to rein in their under-performing trading companies. In the bid to meet the government-imposed annual 10 per cent target in export sales growth some companies have had their fingers burnt in risky consumer markets overseas.

The propensity to go for risky markets has been compounded by the need to raise finance quickly. Endemic under-capitalisation of the majority of trading companies has done little to help.

Unlike many traders, Penta is not the trading arm of a larger holding company eager to milk export earnings to promote other group activities or to ease cash flow difficulties. Murat Vargi sees sales as Penta's locomotive for growth, not the mere outlet of a manufacturing base. Mr. Vargi also laments the scatter gun approach to general trading and preaches a high degree of specialisation.

Penta's expertise in chemicals, fertilisers and plastics has served the company well in Middle Eastern and Mediterranean markets. Having secured its markets Penta is now investing in the manufacturing of the products it knows best.

To fill the short-fall in Turkey for styrene and polystyrene Penta are building a large plant in Aliaga, near Izmir, close to the giant Petkim plant. A new factory in Bursa will soon produce quality towelling products for a lucrative US market.

Vargi goes some way towards recognising the dangers of under-capitalisation and aims to top up Penta's current $1m paid up share capital with some of this years profits. In any event Penta has few problems with credit and has established lines to a total of TL34.25bn as of November. A millionaire on paper, Vargi sides with the angels against the conspicuous opulence of many of his competitors.

Another affliction of Turkish trading companies that Penta seem to have cracked is high staff turnover. Only a handful have quit Penta since its creation. Vargi likes to consider the young graduate cadres of Penta as the company's most important asset. Most are educated at one of Turkey's English medium universities and have at least one foreign language.

Senior management functions are shared by the five managing partners with Vargi staying at home in charge of the operational side of the business. The other four spend most of their time abroad and concentrate on either regional or product specialisations.

The company is conscious of the need to develop its international presence, and in addition to New York, Geneva, and The Hague, will be opening in Manila, Moscow, and Algiers. Penta trades a good deal under the umbrella of bilateral trade agreements and its offices in Baghdad and Tehran are concentrating on developing countertrade.

The most telling item in Penta's corporate confidence is their recourse to an international accountancy firm for an annual audit. With compulsory audits still some way off, Penta's financial transparency contrasts favourably with the opacity of many competitors. Penta is no household name and Mr Vargi likes it that way.

The blight of Turkey's 'fictitious' exports to extort government export rebates has done little for the image of Turkish international traders.

Mr Vargi claims that in terms of volume, fictitious exports account for little but welcomes the tough new laws to deal with offenders. Not that he has anything to worry about, Murat Vargi, modest fellow that he is, likes Penta's low profile.

Tom Wilson

Foreign trade by areas

(% share of total)

	OECD 1986	OECD 1987	EC Countries 1986	EC Countries 1987	Islamic Countries 1986	Islamic Countries 1987
Exports	54.0	66.5	42.7	49.9	38.9	27.4
Imports	65.7	63.3	41.7	39.1	19.8	23.2

Source: State Planning Organisation.

Balance of payments

Figures in TLm.

	1987*	1986
Exports	7,883	7,456
Imports	10,795	11,104
Trade deficit	−2,912	−3,648
Interest payments	−1,382	−1,302
Workers remittances	1,291	1,010
Current account†	−310	1,206
Direct investment	105	98
Dept principal repayment	1,790	1,464

*Jan-Oct only.
†Jan-Aug only.
Source: State Planning Organisation.

Export markets in the Middle East

Still scope for growth

Meat production plant in Izmir, preparing packages for export to the Middle East.

TURKEY'S EXPORT drive to the Middle East has yet to recover from the nose-dive it experienced following the decline in oil prices last year. Once a booming market, the region no longer offers the same opportunities.

The launching of Prime Minister Ozal's trade liberalisation programme saw the Middle East and North African share in total exports leap by a record 41.8 % between 1981 and 1982. Reduced oil revenues led Turkish exports to the region to plunge by 23.7 % between 1985 and 1986, while they continued to slide by around 8 % this year.

Government sources do not express much surprise over this state of affairs. "The dependency of these countries makes trade difficult to predict," says one official, adding that top customers, *Iran and Iraq*, are now spending most of what they have on military goods.

OECD-bound exports which stood at $2.823 bln in the first three quarters of 1986, shot up by 61.7 % to total $4.565 bn in the corresponding period of this year.

What then does the future hold for Turkey's trade with her Middle Eastern neighbours? Official sources state that while Turkey remains committed towards intensifying relations, this will largely depend on petroleum prices and the outcome of the Iran Iraq war.

Economic relations between Turkey and the Middle East are, however, not just limited to trade.

Overseas contracting activities are a major source of foreign exchange and of employment for Turkish workers. But shrinking oil revenues coupled with the completion of most of the infrastructural needs of these countries, have seen the fortunes of Turkish contractors dwindle. Hopes now are that, if and when the Iraq Iran war ends, the Turks may win a sizeable chunk of the reconstruction market.

In the long run, Turkey's role as a land bridge between the *Middle East and Europe* seems to hold more promise.

Since Iraq's falling out with Syria over the Gulf, Turkey has become the main outlet for Iraqi crude through two pipelines running from the Kirkuk oil fields *in Northern Iraq*, to the Mediterranean port of Yumurtalik in Southern Turkey. With a total capacity of 71m tonnes, the pipelines secure $450m annually in royalties.

Discussions are now under way to build a third pipeline.

Projects to carry natural gas from Iran, Syria and Qatar are also being considered according to Mr. Fatih Ocal, Deputy General Manager of the National Pipeline and Petroleum Transportation Company, Botas.

"Whether any of these projects are realised will largely depend on the pipelines being extended to Europe, otherwise they wouldn't be cost-effective," says Dr. Namik Kemal Kilic, head of the Foreign Investment Department, created by Mr. Ozal. He remains optimistic on this score, *stating that the Europeans* would like to see their present dependency on Soviet natural gas lessened.

Political analysts, however, indicate that while negotiations are continuing, unease felt towards the Khomeini regime make it difficult to envision any deals being struck with Iran for the time being. The same sources add that securing financing for its estimated $12bn cost and the distance involved, could stand in the way of the Qatari project.

In fact, "the Syrian pipeline has a much higher chance of realisation because it is very near the Turkish border," said Dr Yusuf Ozal, the brother of the Prime Minister and a newly- elected Motherland MP, in a recent *speech. Syrian diplomatic* sources confirm that both sides are discussing the possibility of a joint venture between the Turkish Petroleum Company (Turk Petrol) and the Syrian government to develop recently discovered gas reserves, initially estimated at around 3m cubic metres.

Pipeline projects are not restricted to oil. The "Peace Pipeline," Mr. Ozal's most ambitious project to date, would involve carrying a total of 6m cubic *metres* of water a day, through one "western" and one "gulf" pipeline from the Seyhan and Ceyhan rivers in Southern Turkey. The first one would run through Syria, Jordan, the West Bank and Saudi Arabia, while the second one would run through Kuwait, Saudi Arabia, Bahrain, *the UAE and Oman*.

These countries, now paying $5 per litre to desalinate their water, will see this figure drop to $1 if the project comes through.

Arab diplomatic sources declare that Israel's involvement, among other things, makes the proposal impossible for them to accept. Mr. Ozal argues, however, that the project, already proven economically feasible, would promote peace by creating vital links between countries in the region.

Whether obvious economic advantages will override political differences remains to be seen. Financing could also be a problem with initial estimates setting its cost over $12bn.

A second pre-feasibility study will *soon be* undertaken with Turkish financing by US's Brown and Root, indicating that Mr.Ozal remains undeterred.

Meanwhile, Turkey is seeking new avenues of economic co-operation with fellow members of the Organisation of the Islamic Conference (OIC). One of the goals of the organisation is to create an Islamic Conference is to create an Islamic Common Market. If established, how would this affect Turkey's recent application for full membership to the EEC ?

Diplomatic sources say that a *choice between two is not likely* to arise, simply because chances of a common market being established between members as diverse in their political and economic make-up as those of the OIC, are rather remote.

Joint economic activities within the OIC framework have, nonetheless, started bearing fruit. Dr Kilic points to a joint venture agreement recently signed between Turkey, Tunisia and Kuwait. The $300m project involves the construction of a fertilizer plant with Kuwaiti funding, Tunisian phosphates and Turkish manpower, and represents the largest arab investment to date.

Middle Eastern investment in Turkey is typically limited to *import export firms with capital* not exceeding $150,000. Arab diplomatic sources indicate that Mr. Ozal's re-election is likely to boost investor confidence and see these figures go up.

The same sources readily agree that the present government has had a positive impact on ties with the Middle East. While oil will continue to be a determing factor in these ties, Prime Minister Ozal's outward looking economic policies, leave no doubt that he will make the best of what opportunities there are.

Amberin Zeman

Privatisation plans

Clearing the decks

LAST AUGUST, the Prime Minister Mr Turgut Ozal, announced that the state had sold some of *its stakes in six blue chip private* sector companies on an experimental basis as part of Turkey's overall privatisation scheme.

Less than 48 hours later, Istanbul's Stock Exchange went into a frenzy. According to Mr Ozal's initial statement, a limited number of state-owned shares had been floated on the market. He did not disclose any details about dates, values, or amounts.

Stock prices in Istanbul plunged and anxious dealers and even market officials publicly cast doubt on the sale. They said that there had been no noticeable increase in transactions which would have proved that the 'secret dealing' had taken place.

In fact, the sales were an experiment and the volume was so small that it took months for market experts to track down approximate dates of transactions and guess the identities of the intermediaries involved. Mr Cengiz Israfil, formerly of J. P. Morgan and now the prime minister's adviser on privatisation, says that the episode was blown out of proportion by the local press. The government was simply testing its own ability to sell off shares and the complications of the market.

Turkey's privatisation agenda is lengthy and somewhat controversial, with many Turks accustomed to a deeply statist economic as well as political tradition. Many of the publicly *owned bodies are very large.* They are badly managed and often technologically old fashioned compared to the private sector.

Accounting standards are low. Above all, there is only a very limited tradition of share-ownership in Turkey and private enterprise is still viewed with suspicion in some quarters. Some Turks even express the fear that the whole privatisation scheme is just a ploy to sell off State Economic Enterprises to foreigners.

The charge crops up from time to time in the columns of the press. So does the claim that the government favours privatisation simply as a new form of domestic borrowing. In October, the government announced its first major decision. It transferred ownership of the Sumerbank and Petkim, two of the most complex State Economic Enterprises (SEEs) to the Mass Housing and Public Participations Fund Authority.

Sumerbank is Turkey's largest textiles producer, and has substantial other manufacturing activities. Petkim is the state petrochemicals corporation. The transfer to the fund was interpreted by many as the first serious step towards privatisation.

"They are the first SEEs for *which this step has been taken*," says Mr Israfil, "but they may not necessarily be the first ones to be sold off. The privatisation of Petkim and Sumerbank could be a lengthy process."

Sumerbank consists of 43 establishments from a bank to textile factors and shops. Nominal value is said to be TL200bn. *Petkim, in which the Treasury* had a smaller stake of 95% (most of the remainder belonging to a pension fund) has petrochemical plants at Yarimca near Istanbul, Alpet near Izmir, and Petlas, a tyre producer near Kirsehir *which has not actually gone into* production.

Alpet is said to have covered its foreign debts and to be currently financing itself. Yarpet is expected to make a profit of TL35bn ($36m) in 1988. The ventures likely to be sold off before either Petkim or Sumerbank are much smaller. They include the Bogazici Air Transport Company, Usas the airport ground services corporation, Turban, a hotel chain owned by the Tourism Bank, and Citosan, the state *cement corporation.* Five of Citosan's cement plants look likely to attract buyers, as do the Turban hotels.

An announcement on which company will be sold off first *is likely to come soon after the new* government has been installed. But Mr Israfil believes that tackling the difficult privatisation candidates along with the easy ones is a must or else there will be a gap.

"Actually, none of them is easy. But there are no impossible ones either if you are determined. Auditing would take a *few weeks* in the case of USAS, but I don't know how long it would take for the Sumerbank. It is a big project," he says.

The authority is considering breaking up the Sumerbank and hiving off its industrial activities *from* the banking operations. "In this process, we may think geographically, and if there are two separate Sumerbank establishments side by side, we could consider selling them off together," says Mr Israfil.

A more delicate problem is what to do with chronic loss-making enterprises. A report on the Turkish fertilizer industry prepared by foreign consultants branded three plants as hopeless and recommended their closure. Similar cases are likely to arise in other sectors.

There is also the question of management as well as of the sale of state-owned shares. Mr Israfil says that the first two privatisation steps are the drawing up of a new corporate charter laying down new rules, and reorganisation within a fixed time limit.

For Mr Inal Atac, an advisor on privatisation at the Turk Ekonomi Bankasi, a major issue *is the* infrastructural work for the privatisation of the cement plants.

"Various methods may be applied," he says. "There are groups which have proved themselves already within specific SEEs. These could become managing groups. In fact, an article could be added to the contract and a share issued to such a group on condition that they would manage the company for 5-10 years."

Mr Atac says, however, that a bigger obstacle is lack of public awareness of what stocks and securities are.

He says that the growth of the Istanbul Stock Exchange is having a major effect on the growth *of money markets* and leading to increased trading in stocks. However the shares of fewer than 50 companies traded on the Istanbul Stock Exchange total around TL 35bn ($35m). But a small SEE would probably be valued around TL 25bn.

"Under these circumstances," he says, "it is not possible to sell off all the SEE shares at on the ISE."

So what should be done? According to Mr Atac, the shares could be sold through banks and these could then be released into the second, larger market of non-prime shares on the stock exchange. There would then be a gradual shift towards the upper market and eventually permission would be granted for many of them to be traded on it.

Ismet Imset

Problems for pharmaceutical companies

Battle against piracy

"WE ARE not investing in Turkey until a new patent law comes out," one large US health-care company announced at a business lunch in Istanbul, earlier this month.

The company's comments come after four years of frustration at the first Ozal government's failure to act on its promises to protect *foreign pharmaceutical companies from piracy.*

At present, Turkish law offers no protection to these companies, to manufacturers of veterinary and agricultural chemicals and to computer companies. It is a situation which has discouraged the ten foreign pharmaceutical companies in Turkey from making any major investments for nearly a decade.

Indeed, Squibb and Abbott have now withdrawn and are operating only on the basis of licence agreements with Fako, one of the largest of the 60 or so local producers. Six of the 70 drug companies active in Turkey control half the market.

The companies have other complaints such as the problem in obtaining government approval of price increases and restrictions on the pricing of imported raw materials but, with *per capita consumption of medicine* only say one tenth of that in Sweden, the opportunities are high - as, in parallel, is the level of impatience with the current patent law.

"The law makes introducing a new technology a serious risk," says Mr Alev Sonat, general manager of Pfizer, who is co-ordinating the foreign companies' efforts.

Two years ago the draft law tackling this issue was rejected by a parliamentary committee. The matter was then taken up in the cabinet, but was dropped in the face of strong opposition from the ministers of health and agriculture.

Now the US-Turkish Business Council, a body of prominent industrialists from both countries, is to take it up with the Prime Minister. But optimism is tempered.

"We had hoped that Turkey's application for full membership of the EC might speed things along," one businessman says. "But the omens are not good. Italy only accepted EC patent practices in 1979 and Spain is openly violating them."

David Tonge

Optimism in engineering continues to run high

State contracts are crucial

TURKEY'S engineering industry, like other sectors of the economy, is waiting to evaluate what effect the widely expected period of post-election financial restraint will have on its fortunes.

Public contracts are crucial to continued strong activity in the Turkish *engineering sector.* There is, however, considerable optimism among leading figures in the industry that engineering will not be seriously constrained.

Preparation and contracts for a number of major projects such as the proposed Istanbul-Ankara motorway are at an advanced stage, and it is thought improbable that Government action will be taken to curtail or delay such works.

Preparations for a number of major contracts are under way

Mr Yusuf Akcevin, who manages Gama, one of Turkey's leading engineering groups, acknowledges the essential importance of the public sector. The company has some private sector work - it has for the past five years been producing steam generators under licence from Babcock and Wilcox for private customers - but the group looks to the public sector for the bulk of its activity.

"We are therefore obviously affected by political decisions. But I believe those decisions will favour continued infrastructure developments," he says. "Turkey still has infrastructure gaps compared with Western Europe - like an electricity gap, for example.

"I certainly expect the commissioning of more power plant. There are also signs that investment in the infrastructure by municipal authorities is growing and will continue to do so."

Mr Cetin Mangir, commercial manager of Tumas, another of Turkey's oldest and biggest consulting engineers, agrees.

"A lot of work on power generation, motorways and similar public projects is underway and I expect this to continue," he says.

In Turkey, military requirements also form a significant element of activity for the engineering industry. Tumas is currently working on a naval base in the south west of the country, and 20-25 per cent of the group's activity is typically for the military.

In the longer-term, however, a much bigger question about the Turkish engineering industry awaits an answer. This is whether and how the sector - which remains heavily dependent on foreign contractors and partnership projects which often involve little technology transfer - will develop into a fully self-sufficient, national engineering industry.

Turkish universities produce a commendable number and quality of engineers. They often finish up working abroad or, in the words of one only slightly cynical observer, "running grocery shops."

Low pay by international standards is a large part of this problem. A newly qualified young engineer would typically earn TL350,000-TL400,000 per month in his or her first job, rising after several years experience to TL600,000. This is not enough to persuade many of the most able engineers to remain in the profession.

The reason for the low pay, say critics of the structure of engineering in Turkey, feeds back to the fact that customers expect engineering and design activities to be carried out for unrealistically low fees.

"There is insufficient appreciation of the value of good engineering in the Turkish market," says Mr Michaelangelo Canzi, *managing director of Bimas,* Turkish arm of the Foster Wheeler corporation. "Price tends to be the only criteria by which a tender is evaluated and this too often leads to work being undertaken too cheaply, with poor quality the result."

He cites the current example of ten contracts from the Istambul municipal authorities for a new drainage system in the city, each worth between TL500,000m and TL1bn. Bimas was awarded none of the contracts, many of which have gone to little-known organisations.

"Somebody bid one-fifth of our price. It is, by any standards, simply impossible to do an adequate job at this price. Sometimes people with little or no experience of managing big projects literally scratch together a team of people to do the job. You go and look for their offices and find that they do not exist."

Mr Canzi and Mr Charles Fegley, his predecessor as managing director of Bimas, have been active in arguing that Turkey must reduce its dependence on both small local organisations incapable of executing large projects and foreign companies, and develop its own large, multi-disciplined engineering contractors.

In a paper on the subject Mr Fegley fired a series of critisisms at engineering in Turkey. His targets included:

□ The Government for giving work to Government-owned or established engineering companies "with token competition or none at all."

□ Impatient clients who were not willing to spend time in advance of construction fully co-ordinating the engineering disciplines.

□ Turkish engineering companies which "do not understand the concept of a fully engineered, designed and specified project or lack inter-disciplinary co-ordination capabilities."

Mr Fegley summed up the present position as "one vicious circle...lack of capability in Turkish engineering companies creates a lack of confidence in clients or potential clients, causing work to be passed to foreign firms thereby creating stagnation in the engineering profession."

There are indications that the Turkish Government has begun to respond to some of these concerns. The Ministry of Industry and Trade has produced a draft decree, on which consultations are taking place, aimed at encouraging the development of *engineering consultancy services.*

Under the proposed decree, engineering groups tendering for investments of more than TL5bn (at 1985 prices) will be required to employ sufficient technical staff of various disciplines to cope with the work, and will need to have previous experience of this scale of operation.

In cases where Turkish companies form joint ventures with those from overseas, the local contribution will be required to be at least 40 per cent of the value of the engineering services, or 50 per cent where the Turkish contractor is the lead partner.

Alan Pike

Industry showcase

TURKEY'S ROLE as an industrial nation and as a potential EC partner will be demonstrated in London next spring with the country's first-ever industrial exhibition to be held on foreign soil.

The exhibition, to be held at the Barbican Centre from April 19-21, 1988, will be supported by more than 60 companies from a wide range of Turkish industry, which exports some 60 per cent of its output to the European Community.

Eleven companies will feature products from Turkey's growing electrical equipment sector; other categories will include electronics, petrochemical products, iron and steel products, cement, ceramics, glassware, textiles and carpets.

□ More details of the event, arranged through the Turkish-British Chamber of Commerce and Industry, are available from the McCann Consultancy in London, (tel.01.353.5375).

Contracting

Saved by strong domestic order inflow

DESPITE the sharp fall in orders from abroad, especially in the Middle East where they won many large contracts after 1981, major Turkish building contractors agree that the significant rise in domestic infrastructure activity has generally allowed them to carry on without cutting their workforces.

For Mr Dilek Gudrun, the personnel manager of one of Turkey's largest contractors, Kutlutas, this point is essential. The human and technical capital built up by such organisations as Enka, Eska, STFA and Kiska must be maintained for the sake of the country's economic future.

In the past three years, however, the percentage of foreign contracts in the portfolios of major construction companies has declined from above 60 per cent to something nearer one third, the value of domestic contracts having risen by an inverse proportion.

Enka still holds pride of place. With contracts worth US$2.1bn last year, $1.4bn of which were abroad this company tops the list. Whether it is the most tightly run or the most profitable contractor in Turkey is difficult to say as many people in Istanbul believe that the more conservatively run STFA (which stands for the names of the two founders, Mr Sezai Turkes and Mr Feyzi Akkaya) is more than a match, despite its smaller size.

Enka is still heavily involved in the Middle East, notably in Iraq, with the $1.5bn Bekhme Dam project, in Libya with the $460m Brega New Town, and in Saudi Arabia with the building of giant water reservoirs in Mecca. Among a host of other projects in Turkey the company is involved in the $260m project which is nearing completion to build a gas pipeline from the USSR to Ankara and there are many other jobs going - roads, bridges, power plants and ports.

The gas pipe from the USSR will be paid for at least up to two thirds of total value by work on projects in Russia. These include a 1,000-bed hospital in Moscow and a 350-bed hotel in Baku for which Enka is bidding. Other projects related to the gas sales to Turkey include a 500-bed hotel and a modern health resort in Yalta, a hotel in Tbilisi and a trade centre in Moscow.

Enka's managing director, Mr Ali Kud professes not to be too worried about the profitability of such projects. Company officials also insist that they do not face any real payments problems in Libya, a claim which is received with a degree of scepticism by their rivals.

Contracts overall in Africa and the Middle East earned Turkish contractors US$2.2bn last year, which represents 3 per cent of the world market for such large building contracts.

Kutlutas for its part is now much more domestically oriented, with 75 per cent of all its work being done at home, a neat reversal of the position it enjoyed five years ago. The foreign share here is accounted for essentially by Saudi Arabia where the company is building, together with Enka, a US$383m housing project in Medina. It has also built a new town at Ras Lanuf in Libya but new contracts there are smaller and more difficult to come by. Large thermal power stations such as Kangal and Catalagzi as well as a number of housing projects in Turkey are now priority projects, together with a number of dams and highways.

Foreign contracts in the major companies' portfolios have declined in the past three years from above 60 per cent to one third

The Kutlutas Group is the nucleus of a string of manufacturing, engineering and construction companies which means that most of the skills required to complete large contracts can be found in-house. By the end of 1987, and despite the relative retrenchment where operations in the Middle East are concerned, Kutlutas will have completed projects abroad with an aggregate value of US$1bn.

The major thrust outside the frontiers of Turkey for this company is expected to come from projects in the USSR and it formed a consortium with four other companies (Gama, Guris, Kiska and Entes) called Mir (which means peace) eight months ago.

Eska is a somewhat different animal, most of its work being located in Turkey. After an experience in Libya which the company's chairman, Mr Selim Edes, is loath to describe as a happy one, Eska has focused its activities in four areas.

First of all tourism which is currently undergoing a boom in Turkey. Hotels, golf courses and seaside villages figure prominently inthe company's portfolio, all of which should give Turkey an extra 14,000 beds by 1992. Most of these projects are being done in partnership with major tour operators such as Neckermann. One major hotel project for Istanbul, for 4,000 beds, will be done with Holiday Inns.

The 650-bed integrated Club Aldiana, east of Antalya, does at least show sensitivity to traditional forms of Turkish architecture. Other areas of interest include the many projects to improve amenities in Istanbul, notably in the Golden Horn and housing projects. Roads, and military projects, notably at the US Air Base at Incerlik near Adana complete what is likely to remain an essentially domestic picture.

Kiska is another company which has retreated from abroad where, five years ago it was conducting 50 per cent of its business.

SFTA is also doing more work in Turkey today. With two major projects nearing completion in Saudi Arabia (a water drainage project and construction of water mains in the city of Mecca), a US$35m quarry project in Libya does not look very exciting. True, the company does have a good portfolio of projects in Istanbul, notably the second Bosphorus Bridge and various sewage projects.

It is of course difficult to know the exact volume of work in hand today, but it is obvious that the days when the total value of contracts in the Middle East amounted to US$1.12bn, as was the case six years ago, are well and truly gone.

The present buoyancy in domestic building of all kinds has certainly helped many Turkish contractors but they are earning Turkish Lira and not foreign exchange while the real rate of return on investment is anybody's guess.

Quite apart from the fact that the price of oil is unlikely to rise very much next year, competition in the Middle East is fierce. South Korea can offer better prices while other companies can undercut Turkish ones with the help of very cheap Pakistani or Filipino labour.

SFTA however exudes a completely different atmosphere than Enka. It is imbued with the caution of the two founders who started the company forty years ago after graduating from the Technical University in Istanbul. Orders are not written into the books until firm contracts are signed. Furthermore a company which employs 3,257 workers of which 287 are engineers must be easier to manage than some of its larger competitors.

When looking at this important sector of the Turkish economy one is tempted to conclude "so far so good". Construction will account for 4.3 per cent of gross national product at current prices this year compared with 4 per cent in 1986 and 3.8 per cent the year before. But what happens if the rate of growth in Turkey has to be slowed next year because of inflationary pressures?

Whatever is on offer from the USSR in the years to come will be helpful but is unlikely in the view of many observers to offer such rich pickings as the Middle East. Many companies are quite open about their hopes for an end to the seven year Iran-Iraq War. A reconstruction bill of at least US$100bn would indeed offer some golden opportunities. But that hope alone may not be enough to sustain the current level of activity in the late 1980s.

Francis Ghiles

Motor industry

Substantial rise in car production

THROUGH STILL an infant by European standards, Turkey's motor industry is gradually rallying as far as passenger-car production is concerned, but faces a serious crisis in the commercial vehicles sector.

The number of passenger cars produced over the last five years in Turkey has grown by more than 37%, reaching an annual production record of 82.032 in 1986. A two-month waiting list for delivery for passengers has climbed to six months or more, reflecting growing demand.

This rise in demand has less to do with the quality of cars, however, than with import tariffs and other surcharges which make foreign cars two or three times the cost of local vehicles.

Sales of imported cars jumped *after imports* were eased in 1984, from 4,000 in 1983 to 8,849. The share of imported cars in the domestic market has risen from 7% in 1983 to just under 18% in 1985, with 12,806 cars imported.

By 1986, however, the import regime had been amended and tariffs and surcharges were back up again. Imports of passenger cars fell to 6,937 or around 8% of *the market*. The downward trend continued this year with 1,192 imported passenger cars sold in the first six months, or around 2.2% of the market.

The managing director of one leading car importer says that the new climate has forced some foreign car companies to halt all sales to Turkey. "The import figures show," he says, "that the *liberalisation* of passenger cars has not reached its target of increasing the quality of local production and holding prices stable."

Increased tariffs and trebled surcharges have shifted domestic demand back to local cars, causing shortages. Importers now feel they face difficulties which they did not anticipate when they went into the market soon after formation of the Ozal government.

In the first days of import liberalisation, a number of companies entered the Turkish market. But they could not provide after sales maintenance and dropped out fairly quickly.

Many customers in fact point *to the easy availability of* spare parts and nationwide maintenance when buying cars. Distribution networks for the foreign makes are limited and replacing parts is very expensive and sometimes takes several months.

Most producers regard protection as essential for the Turkish car industry, at least for the time being, and *the only way* that Turkey's industry will be able to survive inside the European Community.

The three Turkish producers dominate the car market, thanks to protection, though they are all

Although car production is at record levels, waiting lists are long.

small by European standards and require large scale investment to reach a competitive size. They are Tofas (in which Fiat of Italy owns 41.5%) which produced 42,116 cars in 1986; Oyak Renault (a joint venture in which foreign partners own 44%) with 32,943; and Otosan (an offshoot of Ford which owns 16.6%) at 6,973.

Total production this year should be around 88,400. Orders placed this month will be delivered in July. The car sales boom is taken by many to show that the motor car has become a form of savings for many Turks, trying to hedge against soaring inflation and - till last July - low interest rates for bank deposits. But this makes the industry precarious.

Changes in macro-economic conditions hurt it more swiftly than they would elsewhere. The strong demand is, nonetheless, set to grow as the population and income figures rise. All three local producers are planning to increase production. Tofas aims at 100,000 cars a year by 1989; while Renault has set targets of 65,000 cars for 1989 and 85,000 for 990. Otosan is believed to have similar plans.

Turkey's overcrowded tractor sector is also showing promising signs, though in 1987 only 33,635 tractors have been produced compared with 45,946 in 1984. Developments in the truck and bus sector are less encouraging. Producers generally complain of a *1984 government decision to* lift restrictions, allowing trucks and buses to flood on to the natonal market in larger numbers than local production.

The Gulf War has driven away much of the transit trade to the Middle East and forced trucks back on the domestic market. Output of trucks was 16,285 in 1983 but *in the first five months* of this year, it was down at a dismal 5,304.

The chairman of the Automotive Industry Association, Mr Ziya Ozkan, denies the Turkish motor industry is in crisis, saying instead that the problem is low capacity utilisation. Truck-producers believe that the way to overcome low utilisation in *the truck sector is to support* production and exports.

In practice, though, exports of the Turkish motor industry are going down. In 1985 motor industry exports earned $138m, but the figure sank to $83m last year and in the first nine months of this year it was $60.2m. Imports of motor vehicles, by comparison were $517m in 1984, $812m *in* 1985, and $767m *last* year, though in the first nine months of this year they were running 40% down on 1986 levels at $360m.

Some parts of the industry have been especially hard hit by the collapse of Middle East markets, but there are some encouraging signs. Production costs seem to be falling with increased output.

Government plans to liberalise the import of spare parts are viewed with some alarm, however. Motor industry bosses gathered in Ankara recently for a Motor Industry Council meeting renewed their appeal to the government for help, citing European protection against Japanese competition.

A note of caution was sounded by the Prime Minister, Mr Turgut Ozal – "Turkey," he told the assembled industrialists, "is able to compete with EC industry in all sectors except the motor industry".

He promised that necessary work was under way to make the industry competitive. There is scope for a healthy motor industry in Turkey. It is just that investment decisions in the 1960s and 1970s have made the way to achieving it rather painful for some sections of the market.

Ismet Imset

Defence industries await major decisions on new contracts

Big plans to update equipment

THE PLAYER selecting Turkey *in a board game based on Nato's* troop deployment would appear to be off to a winning start. Turkey has the largest army in Nato except for the United States, dwarfing some West European nations. But our player, moving Turkey's 600,000-plus military personnel around the board, would soon discover that some of their equipment had a rather unsophisticated and elderly feel to it.

Turkey is therefore now engaged on a large and expensive programme to update its *defence equipment. With the* general election over, some important decisions, involving valuable and keenly-contested international contracts, are imminent. The mechanism for carrying out the modernisation programme is the Defence Industry Development and Support Administration (DIDA), set up two years ago.

Finance is fed into the fund from taxes on cigarettes, alcohol, gambling, bank account interest and other commodities and services. These, in addition to direct allocations *from* the Government, are intended to make an annual $1.5bn available to purchase weapons and equipment and develop new systems.

As well as making direct purchases, the fund is intended to support private investors and joint ventures in indirect ways *like making land and industrial* plants available.

A wide range of DIDA projects provisionally identified for the next 10 years includes artillery radar, low and medium range air defence systems, armoured vehicles, control systems, warships, fighters and transport aircraft.

Turkey has embarked *on a* programme to modernise its M-47 tanks, and the first candidate for a decision on a major DIDA joint venture is between a plan for 1,698 armoured person*nel carriers* and *the new low* level air defence system. There are three bidders for the armoured personnel carrier contract, worth $700m to $800m Krauss Maffei of Germany, FMC of the US and Britain's GKN - all in conjunction with local partners. British Aerospace is one of six bidders to meet the low level air defence contract.

Apart from improving Turkey's defence capability and making it less dependent on foreign assistance in arms supply, the Government hopes that the DIDA project will have wider advantages in the industrial economy. These include technology transfer from defence to other industries and job creation.

It also hopes that Turkey will develop into an exporter of some defence equipment. The most notable joint venture so far is the production of General Dynamics F-16 fighters at a new

With 600,000 military personnel, Turkey has the largest army in Nato, except for the US. Turkey also has one the largest and fastest-growing defence industries in Europe.

complex at Murted which will eventually employ nearly 2,000 people. Production started early this year and the first Turkish-built F-16 flew in the autumn.

General Dynamics and TUSAS, the Turkish state aviation organisation, are the main shareholders in the joint venture with another US group, General Electric, also holding a minority stake. The Murted manufacturing facility will supply fuselage sections and wings for F-16s being manufactured in the US for the United States Air Force, as well as producing 160 F-16s for the Turkish Air Force between now and 1994.

It is stressed that the Murted project is a genuine manufacturing operation, rather than simply an assembly one, which is seen in Turkey as the basis for re-establishing a national aircraft industry. Technical staff working on the project are being trained in the US and General Dynamics is providing the senior management at Murted for seven years. After this, they will hand over to Turkish deputies who are working alongside them.

There is some speculation that Turkey might also consider establishing its own helicopter industry. Defence specialists certainly see a need for Turkey to update its ageing helicopter fleet, important for both internal security and communications in remote parts of the country.

Turkey already supplies a good deal of its own defence requirements. Its shipbuilding industry produces frigates, submarines and a range of smaller craft, and many components and basic supplies are produced internally.

MKE, the state munitions organisation, has 60,000 employees in 18 factories producing not only armaments and ammunition but a wide variety of civilian equipment including earth-moving equipment, bulldozers, textile machines and machine tools. Up to 10 per cent of annual production is exported.

One of Turkey's recent successes which grew out of supplying defence needs is Aselsan, a company founded 11 years ago *with funds from* the Turkish Land Forces Foundation, which raises donations to help finance defence requirements.

The founding purpose of Aselsan was to meet military electronic requirements, but today the company supplies a range of electronic equipment for civilian use as well. About one third of production is exported.

Mr Hacim Kamoy, managing director, has made it his practice to recruit and train young staff and the company now has 2,700 employees including 350 professional engineers and 1,000 technicians with an average age of 26.

In a country where the power and influence of the military has been strong both traditionally and recently President Kenan Evren, the present head of state, is the General Evren who led the 1980 military takeover the balance between senior officers and politicians is of critical significance.

At present Turkey's Chief of Staff is, uniquely in Nato, senior to the nation's Minister of Defence. Mr Turgut Ozal, the Prime Minister, has indicated an interest in changing this relationship. Observers are awaiting the outcome with interest.

Alan Pike

Steel industry's long-term export aims

Europe the key target

"WE MAY be importing steel. But look around you. Even the huge steel beams used in the construction of the second suspension bridge over the Bosphorus in Istanbul are of Turkish-made - at Karabuk," says a proud Ihsan Aktay, the head of the Turkish Iron and Steel corporation, which runs three of Turkey's four steel mills.

The industry, he adds, has expanded fast and is so export-oriented that even the United States has felt compelled to impose a surtax on steel imports *from Turkey*.

But the Turkish steel industry's eyes are not set on the US, but on Europe - and on Turkey's eventual membership of the EC and, consequently, of the European coal and steel pool.

The target date may be at around the turn of the century, but both the Iron and Steel Corporation at Karabuk (which *operates Karabuk, Iskenderun* and Sivas mills) and the Eregli Steel company, on the Black Sea coast, are already pushing ahead with their own master programmes for complete modernisation.

Mr. Aktay says that membership of the EC is their ultimate goal: to prepare for that day, the steel corporation will be increasing its output, pull down operat*ing costs and most vital of all*, take substantial steps in the area of quality control.

The corporations's two main sources of raw material are Divrigi and Hekimhan, both in the mid-east. The quality of the pellet and bulk ore supplied by these zones are not up to European standards. As a first priority, a new enrichment process will upgrade the quality of these supplies.

The corporation earned $80m in hard cash last year from steel exports and has concluded deals with several buyers for delivery of 400,000 tons of steel products this year, mainly to Iraq, China, Iran, Malta, India and Saudi Arabia.

When mills at Karabuk and Iskenderun are modernised at a *cost of $350m, the entire output* lines will achieve their maximum capacity, says Mr Aktay. Steel-makers such as Metas and Izdas, two giants of the Turkish private sector, argue that the Turkish public sector has a long way to go before they can catch up with the standards of Europe.

Isin Celebi, a top executive of the Izmir-based Metas, until a week ago when he was elected to Parliament on the ticket of Prime Minister Turgut Ozal's Motherland Party, says that the Turkish private steel-makers adopted to high-tech systems long before the public sector, mainly because they could overcome bureaucratic obstacles in the shortest possible time, whereas TDCI has to fight with red tape.

But, in the words of Mr. Aktay, "the state sector is not lagging much behind". He notes that several billion liras are to be spent next year for research and development programmes and the entire system at Karabuk will be computerised.

The modernisation of the Iskenderun mill, which was originally designed and financed by the Russians, is moving ahead at a much faster pace than that of Karabuk. The Islamic Development Bank has provided a $11m loan for the modernisation of the Iskenderun mill's bar rolling unit.

But the overall expansion project is still being backed by the Soviet Union - in fact, Tyazhpromexport of Russia is about to complete its feasibility study for the expansion of the mill's capacity from 1.8m tons a year to 2.7m t/y.

The Eregli steel mill (Erdemir), which is a unique combination of public and private sector ownership, is also going ahead with its own plans for modernisation and expansion. Erdemir, the second largest in Turkey in terms of molten metal capacity (after Iskenderun mill) is negotiating with the World Bank for a $80m loan for its third-stage expansion project. However, this loan will cover only a minimal portion of the overall cost – which runs into $800m.

Orkun Akpinar

The textile industry skilfully adapts to changing world markets

Adjusting to pressures

"THE TURKS are very flexible," says Mr Halil Bezmen, head of Mensucat Santral, one of the country's leading exporters of quality bed linen.

"Since 1980 they have learned many lessons and they are adjusting to the open market places of the world."

His comments are well-tailored to the Turkish textile industry, whose traditions date back to the Ottoman empire.

Private sector investment in the 1960s and 1970s and Government incentives in the early 1980s have transformed it into the country's most competitive industry, leading the export league for the past six years. Foreign earnings from textiles this year are expected easily to top $2bn, representing a hefty 28 per cent of total exports.

Holding its own has not been painless for the industry, caught between the free-market, export-oriented policies of the Ozal Government, on one side - and growing restrictions on world textile trade on the other.

Export growth tends to be played down by officials, who are wary of the quotas slapped on Turkish textiles first by the European Community in 1977 and then by the US in 1984.

The EC remains by far Turkey's biggest market, taking about four-fifths of its exports, from cotton yarn to woven trousers, towelling to stockings, and table cloths to track suits.

Sales to the US were negligible until a few years ago, but Turkey now rivals Egypt and Panama as one of the fastest growing suppliers. Exports excluding raw cotton were up 49 per cent in the first nine months of this year from $126m to $188m, according to Treasury and Foreign Trade figures.

The Turks are fighting hard to win two per cent of the US market, but versions differ of their success: they say their share for the nine months was just over 1 per cent, while American sources put it closer to 1.6 per cent.

Turkish officials view the quotas as the main obstacle to further rapid expansion. Some producers, however, feel the restrictions have sparked a healthy creativity and competition in the industry.

The Turks have undoubtedly been skilled at coping, developing new products and setting minimum selling prices to wring the greatest value out of the quotas.

They also have home-grown advantages - a crop of more than 500,000 tonnes of quality cotton each year, proximity to EC markets (unlike their Far East competitors), and a still cheap workforce. Labour costs to the manufacturer are around $1.20 an hour, half of which goes on taxes and social charges.

Turkish cloth is often of high quality: above, a modern weaving plant in Istanbul.

The quotas have nevertheless forced a search for new markets. Turkey's neighbours Iran and Iraq are less reliable buyers than in years gone by because of the Gulf war and falling oil prices. The Eastern bloc looks more promising, and textiles have been included in trade agreements with another neighbour, the Soviet Union, for the first time this year.

Bulk-buying by the Russians is appreciated. One long-established Aegean manufacturer, Izmir Cotton Cloth and Printed Fabrics, achieved the feat of selling 20,000 sets of bedlinen to a Soviet delegation in a single day.

Turkish textiles are also going to an assortment of countries from Ghana and Ethiopia to Taiwan and the Philippines, from India, Afghanistan and Australia to nearby Cyprus.

Quotas and government pressure have wrought many changes within the industry, too, as manufacturers switch from simple yarn and cloth to finished goods and clothing. Ready-to-wear garments now account for nearly 50 per cent of export earnings, and the brightest prospects appear to lie in this high-value subsector, dependent on the small, labour-intensive production units which Turkey has in abundance.

The Government is providing encouragement through duty-free imports of sewing machines and other equipment. But the producers themselves accept that quality could often be improved and some say that the shortage of fashion and design flair is a drawback.

Despite the growth in "cut and sew," the biggest volume of output is still in basic spinning and weaving, where much of the machinery is seriously out-of-date. More than 90 per cent of spinning mills and 95 per cent of weaving plants are over 10 years old against comparable figures of 40 per cent and 50 per cent for West Germany, says one manufacturer.

The survivors in this increasingly capital-intensive subsector will be companies with the financial muscle to invest regularly. Soktas, a high-quality producer established in the 1970s, has just spent $25m over three years on an ultra-modern weaving plant near Soke, south of Izmir, where all routine jobs are carried out by computer or robot.

Mr Ahmet Ulgenerk, a textile expert with Istanbul-based International Business Services, thinks the sector generally is too dependent on costly imported machinery and that the Government should start developing Turkish prototypes.

He also believes incentives should focus more on weaving plants in order to absorb the already large output of yarn, especially as cotton production is likely to double once the South East Anatolia irrigation project comes into operation in the 1990s.

Another concern is managerial quality. Rash investment decisions have been made in the past, leading to a government rescue of several big companies in the early 1980s, and a further shake-out is likely as smaller, inefficient producers feel the pressure of competition.

In the medium-term, however, the textile sector is likely to keep a firm hold on its position at the top of Turkish industry - "this is the growth area still," says Mr Bezmen. "I don't think Turkey will stop before reaching $10bn in textile exports."

Improved prospects of EC entry, though by no means assured, would give the sector a further boost. But some believe that in the long-term the country must further diversify its exports. Even the adaptable Turks may not be able to fight the inevitable squeeze from quotas for ever.

The developing ready-wear sector

More export deals set up

MOST OF THE household names in European clothing have been visiting Istanbul this year. In British terms, almost every group from British Homes Stores to Next or Chelsea Girl has begun to consider or start sourcing in Turkey.

Once restricted to simple knitted goods such as T-shirts, the industry is now supplying almost all casual and sports items, and it is just moving into tailored goods. The logic for the European trader is inescapable. Make-up costs are cheap and access easy. It is only a short plane hop to Istanbul for setting up a deal, and a simple lorry haul back for delivery.

In between, it may be necessary to fly in an expert to assist the Turkish partner overcome the usual main limitation of quality control. But all that is simple, and, further, Turkey has good cloth. Denim is the latest addition to the country's range, with factories like Orta Anadol producing excellent material, and now involved, with Altinyildiz, in production plans with Levi Strauss.

The problems lie in implementing this approach. No industry in Turkey is more confusing. Identifying a reliable supplier is a major hurdle for new entrants. True, one can deal with a major export trading house such as Cukurova, Nova or Ram, which have experience in the sector. But many foreign companies prefer to deal directly with the factory which will be cutting and sewing their goods.

Locating a factory with in-house experience of manufacturing, say, corduroy skirts, can be time consuming, even for companies which deal regularly with the industry. The professional bodies of the industry are little help and few traders like to reveal their sources.

"One British company keen to source ski clothing came to us after visiting Istanbul," the Turkish commercial section in London says. "It could not locate any company dealing with such items and returned empty handed."

In part the problem reflects the youth of the industry, and in part its structure. There are a few manufacturers with major units of 200 machines or more such as Berdan, IGS, Servib, the State-owned Sumerbank, UKI and Utas. But most "manufacturers" prefer to have a small central unit - dealing with patterns, cutting, inspection and packaging - and to put out sewing to *ateliers* of 50 or less machines.

These *ateliers* are traditional sweat shops using non-union labour and usually skimping on tax and social security which, together, double labour costs. "We remember only too well the strikes which bankrupted several factories in the late-1970s", says Mr Ayhan Sicimoglu, chief executive of Sicimoglu AS, a successful exporter to the high streets of Britain, Holland and Italy, and advocate of the quality that can be obtained with the put out system.

The main day-to-day problems of most Turkish manufacturers are on the one hand the difficulties of controlling these *ateliers* and on the other the export quota distribution system which requires exporters to risk - and sometimes lose - large guarantees to the Turkish government. Improving operational efficiency and quality thus often takes second place.

The large production units are all over-manned by European standards. This has led to opportunities for foreign companies to take over ailing units, as the Nigerian originated Italian company Nasco recently did with the Okumus Group.

A few companies have also begun to bring in foreign consultants to do the same in assisting the ready-wear industry to match international standards, as has already happened with many spinning and weaving plants. The result is that Turkey is slowly beginning to reap the benefits and increased value-added goods resulting from developing a fully integrated textile industry.

David Tonge

The writer is director of International Business Services, an Istanbul-based company assisting foreign investors enter Turkey. IBS represents the textile consultancy company, Werner International.

The tobacco industry

Controversy intensifies

POLITICS and business make a formidable mixture in one of Turkey's oldest and proudest industries – tobacco.

Around 450,000 farmers are licensed to grow the crop and as many as 2m voters depend on it for their income.

The growers have long been considered an important political constituency for any Government and in the past official tobacco prices have been set with votes in mind.

The Ozal administration, which has gradually been reforming the industry, faced a dilemma as last month's election loomed. If it allowed the state tobacco monopoly, Tekel, to announce too generous a price for the crop, it would be accused of fuelling high inflation by wooing the farmers. If the price were more modest, the opposition would leap to the defence of the growers. The Government decided to delay the announcement.

Now the elections are over, far more than the farmers' annual income is at stake. Waiting in the wings are the powerful foreign tobacco companies, eager for the new administration to lift remaining restrictions on their entry into the lucrative Turkish market.

Turkey is the world's leading producer of oriental tobacco, whose aromatic flavour adds "the salt and pepper" to the Virginia and Burley types that predominate in Western blended cigarettes.

The crop has been grown officially in Turkey since the 17th century and as recently as 1969 was the country's major foreign exchange earner. Industrial exports have now far outpaced it, but foreign sales of leaf tobacco still bring in around $300m a year.

Turkish tastes have meanwhile switched from home-produced oriental to blended Western brands. Faced with large-scale smuggling of foreign cigarettes into the country, the Government lifted import restrictions in 1985. Turkey now spends roughly as much on imported cigarettes as it earns from tobacco exports.

So the next step was to cut down on imports by making cigarettes locally. The private sector had long been allowed to export leaf tobacco, but until last year Tekel had a monopoly on cigarette production. With the monopoly theoretically lifted, the Government has opened the door for foreign companies to set up joint ventures, growing Virginia and Burley and manufacturing cigarettes.

The guest companies are not all happy with the arrangements, however. As one exporter put it: "In practice, the monopoly still exists and nothing has changed." Tekel insists on a stake in any venture in order to influence cigarette prices; it wants foreign companies to move into half-finished Tekel factories, sometimes far from the best growing regions; and it plans to keep its monopoly on distribution.

"All the obstacles could be solved except distribution," says Dr Eike Kirsch, director of Austro-Turk, a subsidiary of the Austrian state tobacco group. He explains that a well-established manufacturer like Philip Morris of the US, which has 85 per cent of the Turkish import market, would survive. "But a new brand of cigarette might get lost or forgotten in some Tekel warehouse and never sold."

In the hope these conditions will be removed, Austro-Turk Tutun and other companies have been producing experimental crops of Virginia and Burley. However, Mr Kirsch says frankly, "these types don't grow very well here. They can never compete with the international standard." A certain amount could be substituted for foreign-grown leaf, "but to make a good cigarette, you still have to import a lot."

The prospect of foreign tobacco groups entering the market has stirred considerable controversy. Critics charged the Government with selling out to foreigners. Some farmers feared for their jobs because Virginia and Burley crops are highly mechanised compared with the laborious individual cultivation of oriental leaves.

The tobacco companies consider such worries unfounded. Mr Istemi Gurel, chairman of Sunel, the Turkish supplier for the multinational BAT, says there will always be a place for oriental tobacco as long as blended cigarettes continue. Besides, the best quality - encouraged in recent years by the Ozal Government - grows on hills, so there should be no competition for land from Virginia and Burley types which grow on the plains.

Alison Maitland

Dairy industry case study: the Pinar Sut operation

High output despite problems

AT DAWN each day in Turkey's *lush Aegean region, 18,000 farmers* scattered across hundreds of miles hand over their milk at various collecting points for delivery to a single destination.

Journey's end is at Pinar Sut, the country's largest dairy operation, just outside the port and industrial city of Izmir. The plant consumes 70,000 tonnes of milk a year. At full capacity, it can churn out 20 tonnes of yoghurt a day, eight tonnes of butter and six tonnes of cheese, as well as 120 tonnes of long-life milk.

Pinar, part of Yasar Holding, Turkey's third largest industrial group, expects after-tax profits to more than triple this year to $900,000 from its sales in Istanbul, Izmir and the surrounding tourist regions.

Yet a fifth of the plant's capacity is lying idle for lack of sufficient milk supplies and a good part of the profits increase simply reflects sharply rising prices. That a modern, large-scale operation should face obstacles to growth illustrates the serious problems encountered by smaller dairy producers in the last few years.

Mr Ahmet Arsan, general manager of Pinar, puts it bluntly: "Other factories are either bankrupt or operating at very low capacity."

Some of the difficulties are familiar to all Turkish industrialists: prohibitive interest rates and inflation of about 40 per cent a year, which rapidly erodes stock values.

In addition, though, the dairy sector was badly hit two years ago by the lifting of import barriers on heavily subsidised European Community meat and milk powder.

As a result, says Mr Arsan, milk prices fell so low that many farmers decided to slaughter their dairy cattle. Hence the current shortage of milk, as well as local meat.

The Government acted to remedy the situation in April by announcing a package of measures to help dairy farmers, including a guaranteed price of TL35 (3½ cents) per litre of milk, a subsidy on cattle feed and a concessionary interest rate of 22 per cent on credit.

Duties on EC meat and milk powder were increased and the Government pledged that 100,000 high-yield cows would be imported from the US and Western Europe over the next few years to swell the country's livestock base.

Pinar Sut, Turkey's largest dairy plant, processes 70,000 tonnes of milk a year.

Mr Arsan believes it will take three years for the measures to have an effect, but he is reasonably optimistic provided the guaranteed price of milk keeps pace with inflation - "We can build our future on this," he says.

He forecasts rapid growth in the domestic market as per capita income rises and Turks demand more protein in their diet.

As for exports - which Pinar estimates at $3.5m or 9 per cent of turnover this year - Mr Arsan would like to see Government subsidies that would allow Turkey to compete with the EC in Arab markets. At present, Pinar sells to the Arab world only those products such as *labneh* (a variant on yoghurt) that are unfamiliar in EC countries.

The company uses some of its spare capacity to produce 10 tonnes of soft drinks a day and to make and package a range of foods from tomato ketchup and mustard to jam and honey.

It sets great store by quality control - long life milk is likely to have undergone 25 different analyses by the time it reaches the shop.

The plant also houses a research centre where staff are developing ice cream and fruit cocktail mixes and a range of special sauces for McDonald's in Istanbul and other local fast food chains.

The meat for the McDonald's burgers comes from the Pinar integrated meat and feed company, also part of Yasar, some 20 km away. Opened in 1985, it is the biggest meat processing plant in the country, although the huge Koc group has just launched a similar sized competitor in Istanbul.

The Pinar meat factory comprises everything from a feed lot and abattoir to plants for deboning, sausage making and processing by-products. About 220 lambs and 45 steers are slaughtered each hour to produce 20,000 tonnes of meat a year, or about 2 per cent of the country's total output.

The operation faces similar restrictions to the dairy, however. High borrowing costs and a shortage of livestock left it with a $1.2m pre-tax loss last year, while capacity use is only 70 per cent at best.

Interestingly, the Yasar board took a calculated decision not to use cheap imported meat on the grounds that this would kill local production in the long-term.

Instead, says Dr Riza Kibar, general manager, the plant has doubled output of luncheon meat to 40 tonnes a day and should break even this year, thanks to the higher margins on manufactured meat - "value-added products are our only chance to fight inflation and a shortage of raw materials," he says.

Alison Maitland

Fresh sense of confidence over energy production plans

Big contract marks new phase

TURKEY has taken a major step this year towards securing a healthy supply of energy into the next century and at the same time attracting foreign investment in its race to catch up with the industrialised world.

The fruits of this success should be seen in about three and a half years' time when the first coal-fired power station to be constructed under the novel "Build, Operate and Transfer" scheme will be due for completion.

The contract, the subject of an intense three-year battle, was awarded earlier this year to an international consortium headed by Sea-Pac Control Services of Queensland, which will raise the money for and build the 1,400 MW station on the Mediterranean coast. It will also operate the plant, using imported steam coal, for 20 years.

That will be close to the economic life of the plant, an exception from the usual BOT model - used in a variety of new infrastructure projects - which allows for ownership to pass to the Turkish state after about 15 years.

Despite recent hitches in the *final negotiations, the first BOT* contract will be a significant victory for the Ozal Government's pursuit of private sector energy development, encouraged by the World Bank. The project has been welcomed by banks and contractors in the West.

"In a world where opportunities seem to be shrinking, Turkey is a ray of sunshine for investors," said an Australian source. "It is seen as an economically promising country which is going to make major progress in years to come."

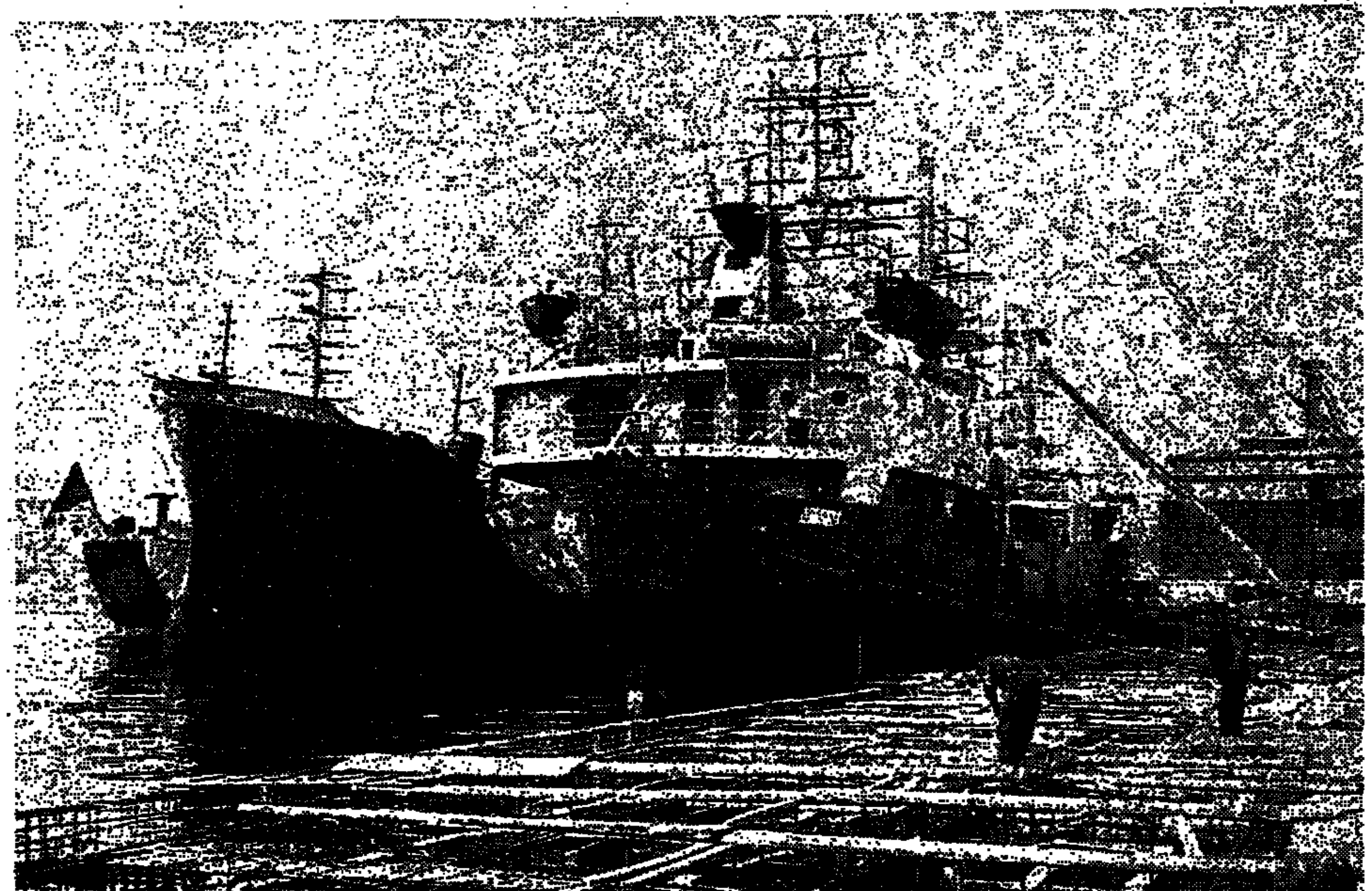
It is a measure of the high stakes involved that one consortium alone spent around $30m on pre-contract survey and development work.

Four other international groups were beaten, but there are consolation prizes. Contracts are expected next year for two more coal-fired plants, one near Istanbul, to be built by a consortium headed by Bechtel of the US, and the other on the Aegean coast involving a Japanese grouping led by the Electrical Power Development Corporation.

Together these plants could be producing 21bn kilowatt hours (Kwh) by 1993 - one fifth of the country's projected electricity output.

"If it works," said a Western diplomat, "it really will be the way out of Turkey's energy dilemma."

No wonder, then, that there is a new sense of confidence in Ankara after the gloom generated by the high cost of oil imports in the first half of the decade. Not only have oil prices fallen, but Turkey has also developed new sources of power, while its growing exports have brought in much-needed foreign exchange.



Energy for industry: above, the Camialti shipyard of the TurkishShipbuilding industry inc., in Istanbul, builds bulk carriers, car and passenger ferries, coasters and fuel tankers. In Turkey's race to catch up with the industrialised world, it aims to keep its domestic energy production abreast of rapid industrial growth and to use the cheapest sources of energy available. Much of the pace will be set by hydro-electric power facilities.

"If we can increase our exports as targeted, there will be no problem in importing energy," says Mr Vedat Sahin, an energy expert at the State Planning Organisation.

Indeed, energy imports - mainly oil from Iran and Iraq and gas from the Soviet Union - are expected to remain between 42 per cent and 50 per cent of annual consumption until the year 2000.

Primary energy production is estimated at 27.2m tonnes of petroleum equivalent this year and 28.1m in 1988 compared with consumption of 46.8m this year and 50m next.

Turkey's aim is to keep domestic energy production abreast of rapid industrial growth and to use the cheapest sources of energy available. Conservation is also being encouraged to cut down on huge losses in transmission, and recent World Bank lending has been specifically aimed at energy saving.

With only limited domestic supplies of oil and gas, and home-produced lignite both inefficient and a serious pollutant, electricity has become the top priority for development.

Demand for electricity is expected to grow by 12 per cent a year for the next five to 10 years, but production should mushroom too, with a 12 per cent jump next year to 50bn Kwh.

In 1990, supply at 70bn Kwh should have overtaken demand by at least 5bn Kwh. The year 2000 should see supply at 174bn Kwh and demand at no more than 170bn Kwh.

The surplus will be stored, says Mr Sahin, "and maybe in the future we can export to Iran, Iraq or Egypt."

Much of the pace will be set by hydro-electric power, which already accounts for 40 per cent of Turkey's electricity output. Its potential is estimated at 110bn Kwh compared with the 18bn Kwh produced now. In other words, Turkey is using only 16 per cent of its abundant source of clean, cheap energy. It hopes to push that figure up to 60 per cent by the turn of the century.

The greatest single contribution will probably come from the 2,400 MW Ataturk Dam, which will tap the waters of the Euphrates in southeast Turkey and is due to come on stream early next decade.

There are 375 untouched sites for potential hydro-electric power schemes and the Government is processing more than 50 mainly small-scale applications with a view to using the private sector BOT model here as well.

In parallel, Turkey is negotiating a 10-year agreement increasing its annual imports of Soviet electricity from 500m Kwh to 1.6bn Kwh.

In September it awarded a major contract for a 1,200 MW power plant fired by Soviet natural gas and home-refined fuel oil to a consortium led by Kraftwerk Union of West Germany. The plant, at Ambarli on the Sea of Marmara, should start operating at the end of next year.

Turkey is notorious, however, for delays over contracts, and bottlenecks are still being reported in obtaining the necessary agreement from the energy ministry for smaller power projects.

Meanwhile, Soviet gas is due to arrive in Turkey shortly via Bulgaria and supplies should reach 6bn cubic metres by 1991, providing a central heating system for Ankara and additional energy for industry.

If reliance on the Soviet Union and Iran for key imports of gas and oil might seem questionable, officials eagerly point to attempts to diversify.

In three years' time, Turkey should be importing and storing liquefied natural gas from Algeria, and talks are also in progress with Qatar for gas supplies. But in case of an emergency, they point out that the country still has its own small reserves of oil, a production capacity of 600m cubic metres of gas a year, and staple lignite and wood.

Alison Maitland

جامعه

Agriculture is arguably Turkey's greatest asset. Sixty per cent of the population works on the land.

Nation is 'a horn of plenty'

FROM the hazelnut groves of the Black Sea to the vast wheat fields of Anatolia and the citrus plantations of the Mediterranean, Turkey's range of climates and soils have created a horn of plenty.

Situated at the crossroads of Europe and Asia, it is one of the few countries to be self-sufficient in basic foods. Its exports generally have good access to the European Community, the Arab world and the Eastern bloc and officials boast it has the potential to feed a population twice the size of its own 53m.

The official rhetoric has not always matched performance, however, and Turkey still has some way to go to realise that potential at home and abroad.

Agriculture is arguably the country's greatest asset, but for years it was neglected in the rapid drive towards industrialisation. Whereas agricultural goods accounted for 80 per cent of exports 15 years ago, today they make up 25 per cent. The share of agriculture in gross national product is around 18 per cent and falling. Yet more than half the population still lives on the land and 60 per cent of the workforce is employed in the agricultural sector.

The Ozal Government has sought to revitalise the sector through export promotion, competition from imports, and heavy investment in irrigation. Direct and indirect subsidies, running at about $1.05bn a year, are aimed at raising productivity.

Mr Ahmet Cetinbudaklar, chairman and general manager of Taris, the country's largest farming co-operative, is an enthusiastic salesman both for Turkish produce and for the Ozal Government's contribution to agricultural development.

The administration, he says, has lifted price controls, ended the monopoly on fertilizer sales and increased corn yields by importing high quality seed, all to the benefit of Taris' 93,000 farmers.

Technology and marketing skills are now needed from abroad so that Turkey can produce and export high-value processed foods.

"We have to attract the big American and British chains," says Mr Cetinbudaklar. "I'm going after investments."

Big foreign names already present in Turkey include Unilever, Henkel, Nestle and Coca-Cola. But others such as General Foods are as yet absent, notes Mr Ian Walker of London-based international business consultants Walker Marketing.

"Present opportunities for (especially foreign) suppliers and investors in the Turkish food industry have clearly never been greater," he says in a recent report on the industry.

Turkey is one of the few countries that is self-sufficient in basic food.

Among the attractions are relatively low labour costs, excellent trading relations with neighbouring countries and steadily increasing domestic demand for convenience foods. Early next decade, the vast South East Anatolia Project will irrigate 170,000 hectares, bringing dramatic increases in output of potatoes, olives, onions, fresh fruit and pistachio nuts.

"However," he adds, "for some companies the constraints - and there are a significant number - may still outweigh the apparent advantages of new business development."

Mr Walker points to the crippling cost of short-term credit in Turkey, running at about 70 per cent, excessive bureaucracy, shortcomings in the storage, packaging and distribution of food, and the absence of any immediate prospects of European Community membership.

Another problem is that Turkey is producing foods such as sugar that are not cost-competitive, when it could be concentrating more on vegetables, nuts, fruit and pulses where it has a comparative economic advantage.

Self-sufficiency, however, is fundamental to policy-making in Ankara, and the Turks are proud of their sugar production, which dates back to the 1930s - "cost competitiveness is not an issue in the agriculture ministry," explains one food industry analyst. "It may be more costly to produce it, but they don't want to spend money importing sugar."

If the Turks relish self-sufficiency in basic foods, they have not necessarily achieved it in dietary terms. As per capita income and education improve, demand is likely to rise for high-protein foods such as meat and dairy products, a fair proportion of which is imported. Processed and convenience foods will also attract more interest.

Hand-in-hand with higher living standards goes urbanisation, an issue which the Government has to address as it ponders the future of food production.

In the agriculture ministry - a rather shabby, neglected building - there is confidence that the problem can be overcome. The Government has brought electricity, telephones and better roads to the villages to discourage an exodus, say officials. And if mechanisation puts people out of work on the farms, construction and industry will absorb them.

Others outside the administration are more anxious - "no one is thinking about the nature of the transition," says an agriculturist. "They should be taking appropriate measures to ensure it happens in as painless a way as possible."

One organisation that offers practical help to rural communities is the Development Foundation of Turkey, a private body that encourages small farmers to take shareholdings in co-operatives. Its most successful project so far started with five farmers in the early 1970s and has now swelled to 1,500, producing one in six of the country's broiler fowls.

The Foundation provides farmers with training and helps them overcome financial difficulties by supervising bank loans. As agriculture fights for a place alongside modern industry, some of the rural poor on the smallest farms are being given a chance to share in Turkey's vast natural wealth.

Alison Maitland

Unions and labour

Militancy far from extinguished

THE NUMBER of working days lost through industrial disputes in Turkey this year around 2m will be the highest since the 1980 military takeover.

Whatever other interpretations can be placed on this fact, it demonstrates that trade unionism and industrial militancy in Turkey are far from extinguished. Yet the trade unions remain in a severely weakened state compared with their pre-1980 position.

Strikes are now forbidden by law in many parts of the economy, including banking and much of the public sector. Political and solidarity strikes are also outlawed. So, controversially, are other forms of political activity by trade unions. Trade union representatives were swept from the boards of state bodies in the changing political climate of the early 1980s.

Neither is trade union membership particularly large in relation to a total national workforce of around 16m. Turk-is, the biggest trade union confederation, encompasses 32 unions with a total membership of 1,850,000. Hak-is, the Islamic union confederation, probably covers around 200,000 more members.

The unions do, however, remain influential in industrial sectors of the economy and disputes are sometimes fought with a vigour and determination which would surprise trade unionists elsewhere. A group of 3,000 employees of an Ankara-based grocery chain, for instance, have been on strike since June.

The issues are not money, but disciplinary procedures and working hours. For the ordinary Turkish worker, trade union member or not, there has been another, much more pertinent, change during the 1980s: a massive decline in earnings.

Mr Sevket Yilmaz, president of Turk-is, calculates that there has been a 50 per cent decline in real incomes since 1984. Public sector unions estimate the drop to have been 60 per cent since 1979.

This has helped provide Turkey with very low comparative labour costs and contributed to economic growth. But it has also contributed to resentment. Union leaders remain uncompromisingly bitter about the loss of rights like the ability to take part in political activity.

Mr Yilmaz says there was no progress made towards greater rights for trade unions during the life of the last parliament. The indications are that Mr Turgut Ozal, now returned to power for a further term as Prime Minister, will continue to exercise caution in the area of labour law.

Strikes are now forbidden by law in many sectors of the economy, but disputes are sometimes fought with vigour.

Indeed, there is speculation that the Government might be prepared to further antagonise leaders by moving from collective bargaining to a system of individual service contracts for State sector employees.

Opinions differ, however, about the extent to which the much-resented legal controls have succeeded in constraining the unions in the area of mainstream industrial activity. The strike figures point to a strong increase in industrial action although the procedures for conducting a strike within the law are rigorous.

In the opinion of one foreign banker in Turkey: "The law has changed the position of the unions in Turkish society during the 1980s but in the industrial areas of the economy, where they have their main strength, they still have considerable power."

Mr Kubilay Atasayar, secretary general of the Turkish Confederation of Employer Associations, believes that the prohibition on political activities by unions is sometimes given an exaggerated importance.

Unions, he said, could declare political opinions and take attitudes towards political parties, as had been shown in last month's general election campaign.

"Therefore the prohibition does not seem to us as important as it might appear at first sight," he says. Industrial relations in Turkey, in Mr Atasayar's view, have reached a reasonable level of maturity comparable with Western societies, but there were areas where further progress needed to be made.

"Both sides of industry should get more accustomed to solving our problems by mutual discussion rather than depending on the assistance of the Government. This habit of referring to laws prevents the two sides from resolving their disputes by negotiation."

The confederation, which represents 70 employers associations in both public and private sectors, looks for the support of Turk-is to strengthen bargaining procedures. But it is concerned about the ability of the Turk-is executive, which was elected by narrow margins and consists mainly of representatives of the smaller unions, to speak for and control all its member unions.

But, summed up Mr Atasayar, in comparison with some of the "tragic experiences" in Turkish industrial relations prior to 1980, he took a fairly optimistic view of the present position and the future. It is impossible to be entirely optimistic about unemployment in Turkey - just as it is impossible to be precise about the scale of the problem. In a country which retains a large agricultural sector, and where a good many town dwellers may have two or three part-time jobs - on one side of the border between the formal and informal economy or the other - exact counting is difficult.

The current official estimate of unemployment is 15 per cent, while other labour market specialists suggest 18-20 per cent. Turkish workers have a reputation for reliability and a willingness to acquire new skills. Managers from multinational companies sometimes detect a somewhat Japanese style of group loyalty and cohesiveness.

Turkey is not alone in experiencing skill shortages, particularly in the computer and electronics areas. Mr Mehmet Karaduman, general director of the Turkish government's employment service, says training programmes have been designed to increase the supply of skilled workers in these and other areas.

Alan Pike

Produce and packaging: a key issue in exports

Much scope for developments

THE YOUNG salesman did not mince his words: "We have everything we need in Turkey," he said. "We just don't know how to use it."

Travelling around the Aegean region, with its green farmland and warm climate, the initial impression is that there can be few obstacles to a highly successful food industry.

But when it comes to packaging and marketing the fruits of their fields, the Turks often fall short of the standards set by the sophisticated European markets which they aim to reach.

An abundance of fresh produce has traditionally meant less demand among Turks themselves for carefully packaged foods. There are few freezers in Turkey, most milk is still sold unpackaged by street vendors, and supermarkets are rare in a country where corner stores still hold sway.

Packaging quality is a key issue in export, as Mrs Zeynep Tameroglu of International Business Services explains. In a recent study of packaging, she found for example that Iraq, Turkey's main market for eggs, had almost reached saturation and that the moulded fibre egg boxes, made of recycled waste paper, were simply "not attractive enough" to European customers.

She also pinpointed poor distribution of paper and plastic by the state-owned raw material producers.

Despite the difficulty in educating public tastes and changing the habits of a lifetime, Mrs Tameroglu believes packaging can latch on to the dynamism of the country's food industry.

Attempting to exploit some of that undoubted potential is the Swedish company, Tetra Pak. It plans to open a packaging plant outside the Aegean port of Izmir in the new year in a joint venture with Nasas, a Turkish aluminium converting company.

The factory, in which the Swedes have a 70 per cent stake, should turn out 400m Tetra Brik Aseptic packs a year for sterilised milk and pasteurised fruit juices. The cartons are made from layers of imported polyethylene foil, aluminium foil and paper and are designed to preserve milk and juice in perfect condition for months on end, even in the searing heat of a Turkish summer.

The idea is first to supply Tetra Pak's existing customers in Turkey with packaging made on the spot instead of imported as in the past. The aim will then be to expand the number of customers and the range of products packaged - to include wine, water and vegetable oil.

There are some developments in the packaging of dried foods,

Food packaging standards often fall below the sophisticated levels of Western Europe.

but Tetra Pak is the first on the scene to box liquids in this way, says Mr Carl-Viggo Ostlund, managing director of the Turkish operation.

The Turks have tried unsuccessfully to export fruit juice in bottles or poor quality packets, but they do sell fruit juice concentrate to the US and Germany in bulk steel barrels, he says.

The advent of individual long-life cartons should be a great advantage in a country as vast as Turkey, with its high summer temperatures, poor distribution system and lack of refrigeration.

There are other benefits, too, for the client food companies, who are rapidly learning how to woo customers through design. Some have put recipe competitions on their packs, while others convey messages about hygiene for children.

The joint venture has invested $3.5m in the plant, benefiting from government incentives such as the duty-free import of machinery and reduced corporate taxes.

It is Tetra Pak's 26th factory around the world, and Mr Ostlund believes Turkey is ripe for development. Within the next five to 10 years he expects that supermarkets will make their appearance and that the production, distribution and retailing of food will be transformed.

"There will be a dramatic change," he says. "Then we will have a very good chance of being part of it, because our system is really based on a good distribution system."

Alison Maitland

Tourists are 'discovering' the country but are causing some unwelcome side-effects

Sticky problem of defiled beaches

THE TOURIST season was coming to an end in Turkey this year when a group of local fishermen and artists set out with gloves, face masks and plastic bags into the beautiful bay of Gokova near the Aegean resort of Bodrum.

In a single day of trawling the sea they filled 200 rubbish bags with sewage, empty bottles, babies' nappies and other waste. To round off their clean-up protest, they presented the gruesome catch to the municipality for burning.

The tourist brochures commonly describe Turkey as one of the last "unspoilt" destinations in the Mediterranean. But tourism is mushrooming, and the Turks are discovering the unwelcome side-effects.

Waste on the beaches generally comes from boats. Cruising in a yacht or traditional wooden *gulet* is one of the most popular ways to holiday along the Turkish coast. But some of these boats do not have inbuilt tanks to carry waste, and there are complaints that the authorities do far too little to stop and fine dumpers.

The environment is a sticky subject for the Turkish Government, which wants to avoid the mistakes of other Mediterranean countries yet desperately needs the revenue from tourism to help service its heavy debt burden.

The industry has taken off in the last four years, thanks to generous government incentives and a search for new destinations by an increasingly adventurous North European population.

An estimated 2.8m foreigners visited Turkey this year compared to 1.6m in 1983, and foreign currency revenues are expected to top 3 per cent of gross national product against 0.8 per cent in 1983.

About 500,000 West Germans led this summer's influx, 25 per cent more than in 1986 and an interesting counterpoint to the heavy flow of *gastarbeiter* in the opposite direction. The Yugoslavs took second place and the Greeks third – historical ties are thicker than bad blood over Cyprus.

It was also the year when British tourists "discovered" Turkey in their thousands. Sunmed, the leading UK tour operator in Turkey, saw its package holiday bookings jump from 9,000 in 1986 to 45,000 this summer.

The attractions are undeniable. Despite the signs of pollution, Turkey still has relatively clean seas and well-preserved expanses of beach, and it boasts a wealth of natural and archaeological wonders, a balmy coastal climate, a rich cuisine and hospitable people.

To keep pace with the soaring demand for such amenities, the Government has been liberal with incentives for building: there are tax holidays and grants of up to 20 per cent of the cost of fixed asset investment in priority development zones along the south coast.

As a result, the number of beds has more than doubled from 55,000 in 1983 to around 120,000 now and is expected to reach 220,000 by 1990. The state-owned Tourism Bank this year provided loans for more than 230 projects to create 23,000 extra beds compared to 12,200 beds last year, says Mr Serhan Altinordu, its chairman and president.

The numbers are still modest – Rhodes alone has 60,000 beds – and the Government is taking care to restrict building to designated zones and limit height to four storeys from road level.

"You can't develop tourism only by building more and more beds," Mr Altinordu recognises. "It's important for us to know when we reach the optimum capacity."

He says Turkey is trying to attract architects and project managers from abroad to instil the right skills and attitudes into new construction.

In some cases, however, such action is either inadequate or too late. In the Bodrum region, vast villa developments have sprung up, partly as a result of Government insistence on high bed density and short land leases.

The 49-year leases have encouraged Turkish co-operatives to build cheaply and for the short-term, says Mr Bruce MacEacharn, deputy chairman of UK-based Prudential International Property, who recently returned to the area to look at potential sites. The result is "hundreds of tiny white boxes."

"I would be very worried if I was the Turkish Government because they're not really controlling their planning. Beautiful pieces of land are being razed and any vegetation goes out the door," he says.

"I think Turkey has got the most amazing potential. But it's a little like Spain was...I desperately hope they get their act together and don't allow this indiscriminate development to go on."

In some areas, there appear to be no restrictions on building on the coast itself, and as yet there is a dearth of landscaping and integrated resort development comprising golf courses and other facilities.

It does not have to be like that, says Mr MacEacharn. One development of 1,500 beds in the Mediterranean region of Fethiye has been built in attractive woodland using Ottoman-style architecture that blends with the surrounding countryside.

In the big cities, however, demand for beds has pushed conservation lower down the list of priorities. The Government is anxious to attract business and conference tourism, and Istanbul has a desperate shortage of top class accommodation. To remedy the situation, at least five multi-storey luxury hotels are under construction or planned, with the involvement of British, US, Japanese and Hong Kong groups.

In Ankara, too, new hotels are going up, with a Hilton almost completed and building work starting on a Sheraton.

As the construction sites spring skywards, the young tourist industry still has some way to go to reach the highest international standards. Qualified hotel staff are in short supply, travel arrangements with state-run Turkish Airlines can be bewildering, and roads are hazardous for pedestrians and drivers alike.

For all their exotic fascination, the cities are congested, noisy and polluted, which helps to explain why the Ankara-based Environmental Problems Foundation is planning an information campaign entitled "Better Tourism - Clean Environment".

One other local matter was deemed worthy of mention in a recent article on tourism in the English-language Turkish Daily News. "I have high hopes," wrote the journalist, "that maybe the next generation, but certainly the one after, will realize the necessity of taking a shower every day, and avoiding the smell of garlic in public."

Given the enormous task of realizing Turkey's potential for tourism without destroying its beauty, that particular form of pollution must number among the least of the Government's worries.

Alison Maitland

Left: St Sophia Pensions, Istanbul. These newly-restored wooden houses by the walls of the Topkapi Palace serve as pensions for tourists

Turkey's tourism industry has taken off in the last four years.

Shipping

Gloom over ageing fleet

HAPPY SHIPOWNERS in Istanbul have become a rare breed. With the Government paralysed by elections and disarray in the Istanbul Chamber of Shipping itself which is in the grip of its own election fever, worries about the unacceptably high average age of the Turkish fleet and its renewal are not being properly addressed.

The problems are not new, however, and cannot be divorced from the world-wide context. After 1980, the tiny Turkish fleet had the good fortune of a government composed of enough senior naval officers, including Prime Minister Ulusu, inclined to give shipping a much needed shot in the arm.

Soft finance from the Central Bank was quickly made available for the purchase of ships on which import restrictions were also eased. Age limits on purchases of second-hand ships were raised, resulting, according to some estimates,in the fleet tripling in size to about 6.5 million dwt in 1984.

With foreign currency at a premium it made sense to try to transfer to the Turkish flag much of the estimated $1.7bn spent on freight with foreign vessels. Many new owners managed to break into a largely state dominated sector. However, the world crisis hit Turkish owners hard. Public and Government reaction against shippers in difficulty was unexpectedly stern.

The situation was compounded by numerous scandals in the industry and the Ozal Government reversed its predecessor's policy. Soft credit dried up and the age limits on ship purchases were brought down to five years for tankers and nine years for oil/bulk carriers. The bigger companies, able to raise finance outside Turkey, were allowed to buy ships three years older than less fortunate competitors.

The die was cast for the current gloom. Shipowners complain bitterly that such a policy reversal ignored the market and, as a crisis slashed world ship prices and freight rates, a unique opportunity was lost to renew the fleet.

One prominent owner, fortunate enough to be able to borrow abroad, currently owns an oil/bulk carrier bought two years ago for $4.5m and is now being offered twice that. Second-hand ships within government age limits are hard to come by, owners complain.

To add insult to injury a 5 per cent ad valorem tax on imports freighted by sea was imposed making it cheaper in some cases to off-load at Piraeus and finish the journey by road.

Despite the difficulties of smaller owners, who make up some 90 per cent of the fleet, the bigger owners still claim the Ulusu Government's policy proved effective in pushing the Turkish fleet from an embryonic stage to a broader-based level of development. In macro-economic terms, the industry argues that the foreign currency saved by transferring to Turkish vessels cargoes paid for in Turkish Lira, more than outweighed the capital expenditure on new ships in the early '80s.

On a slightly less gloomy note, owners welcome the planned expansion and improvement in port facilities funded by the World Bank. However few owners express great optimism that the improvements will meet capacity requirements in the 1990s. One owner complained that his vessels still have to wait a week before gaining access to Istanbul's Haydarpasa port.

The fleet is now ageing fast and with a few companies buying new vessels a contraction in the industry would seem inevitable. The average age is now around 17 years, (19 years for oil/bulk carriers). Attacks in the Gulf have compounded the problem, seven Turkish ships have been lost so far.

One owner estimated that the fleet had already contracted by about 1 million dwt since its peak in 1984 and that even with scrapping ages currently high, the Turkish fleet could recede to pre-1980 levels within three to four years.

Owners will be pressing the new Ozal Government to ease age restrictions and scrap the 5 per cent ad valorem tax on imported cargoes. With freight rates high and expected to remain so, some owners argue that a soft credit package should be put together to help restructure the fleet, especially in the 80,000 DWT plus category.

Realistically few expect the Government to pay up and are resigned to having to resort to borrowing abroad, an avenue closed to the smaller owners.

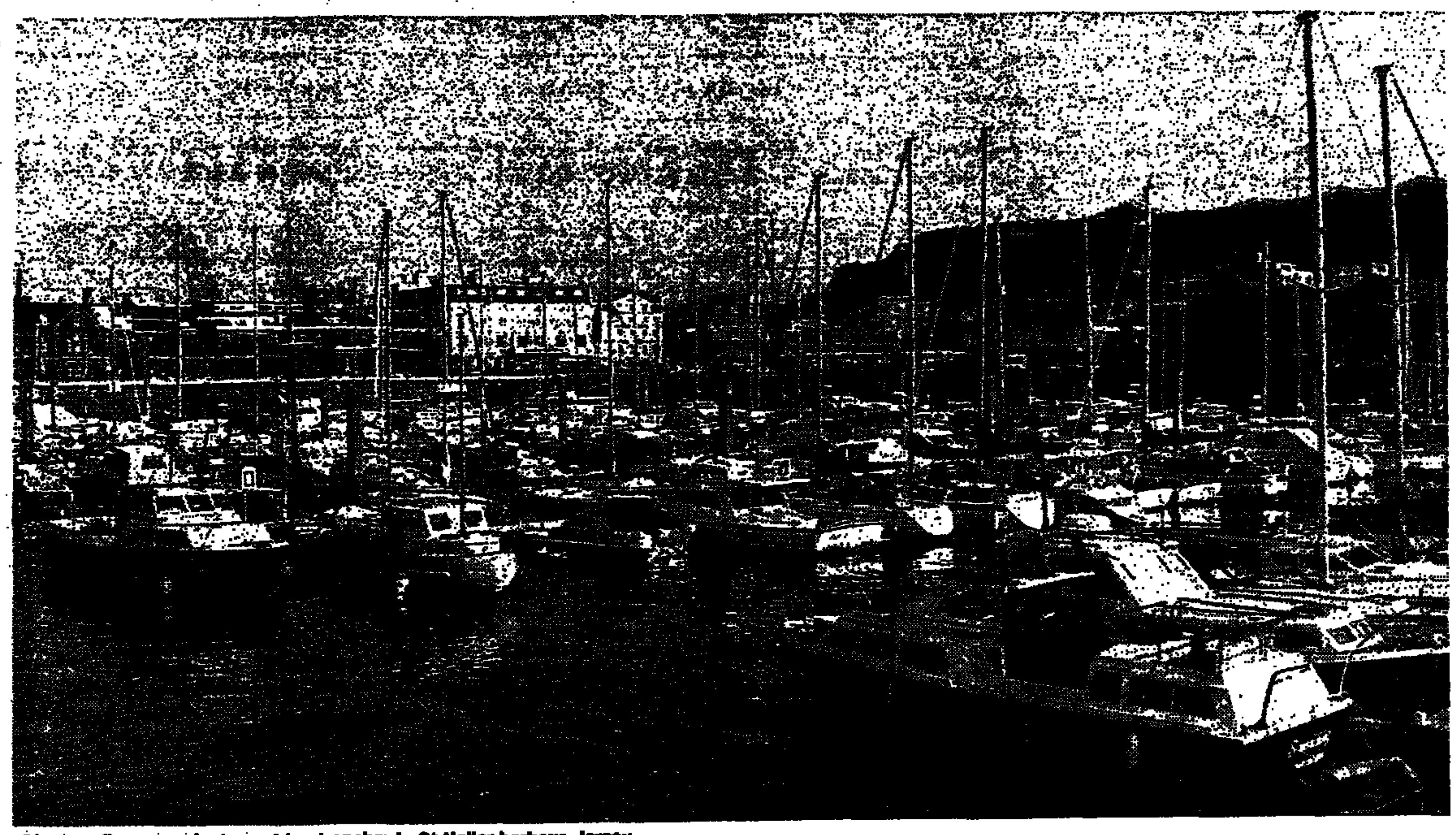
Tom Wilson

SECTION IV

FINANCIAL TIMES SURVEY

These are times of extra-ordinary economic boom in the Channel Islands, thanks almost entirely to the explosive growth of the offshore finance industry. But it is creating difficulties for the traditional economy and, writes **Barry Riley**, its durability cannot be taken for granted

Wrestling with success



Offshore finance: private yachts at anchor in St Helier harbour, Jersey

The Channel Islands

CONTENTS

Pictures by Ashley Ashwood

IMAGINE A small European territory where the income tax yield of £96.3m estimated a year ago for 1987 now seems likely to emerge as £134.3m, and where the unemployment rate was 0.6 per cent last summer against an average of 10 per cent in Western Europe as a whole.

Now imagine a neighbouring island where real GNP growth has been running at around 8 per cent annually for the past two or three years, but where many local politicians are calling stridently for restrictive legislation to bring this headlong progress to an early end.

These are times of extraordinary economic boom for Jersey and Guernsey, the two biggest Channel Islands in the group that nestles just off the Normandy coast. The explanation for this prosperity lies almost entirely in the explosive expansion of the offshore finance industry. Banks, trust companies and unit trust management groups have found Jersey and Guernsey to be excellent bases from which to tap expatriate demand around the world.

It is only around 25 years since the potential of offshore finance began to be seriously explored by the Channel Islands, then dependent mainly on tourism and agriculture. Now the official estimates are that finance accounted for 35 per cent of the GNP in each island for 1985. Jersey estimates that the proportion will have advanced to 39 per cent for 1986; and some islanders believe that these figures are played down for political reasons, and that the actual contribution made by the finance industry, directly and indirectly, could be more than 50 per cent.

Perhaps the stock market crash last October will moderate the offshore finance boom. Certainly the islands are ready to see some impact on profits in the next year as a consequence of the reduction in value of the funds being managed; but on the other hand it is also possible that Jersey and Guernsey, being highly regarded financial centres, could benefit from any "flight to quality" resulting from uncertainty in markets around the world.

Originally the finance industry was a valuable diversification. Now it has become so dominant that the economies of the two islands are again becoming unbalanced, and vulnerable to the risk that offshore finance could suffer a recession.

Moreover, there is a sense of political alienation, because although thousands of islanders enjoy good incomes and satisfying jobs in the finance sector, the institutions themselves are almost all owned outside the islands. Moreover their top executives are nearly always immigrants from the mainland, or further afield.

"Only a couple of top financial managers are locals," complains Roydon Falla, president of the Guernsey States Advisory and Finance Committee.

For their part, many finance sector executives suggest that their interests are not properly taken account of in the political arena. "Business people aren't represented in the States," says Barry McCance, president of the Jersey Bankers. Since last month this has changed slightly, however. Derek Maltwood, chairman of stockbrokers Hoare Govett, became a Jersey States deputy in the recent elections.

"Perhaps I ought to do my bit to represent the finance community," he says. But he insists: "Primarily, I represent my parishioners."

The finance industry is also blamed, rightly or wrongly, for pushing up house prices. On the one hand, many fewer young Channel Islanders are leaving for the mainland than in the past, because attractive jobs are available locally. To an encouraging extent, too, one-time emigrants are returning to establish families. But house prices have shot up to such an extent that young couples now find it difficult to buy their own property.

On the more positive side, economic expansion has brought considerable wealth to the Channel Islands. Although these have long prided themselves on being low tax territories, with a uniform tax rate of 20 per cent on personal incomes and company profits, government revenues have been soaring. The islands have conservative administrations not fundamentally inclined to be big spenders.

In fact Jersey's huge leap in income tax revenue this year is something of a freak development. Most of the £38m extra revenue compared to last year's forecast reflects adjustments and a one-off collection of arrears because of the impact of computerisation. Next year's tax yield is estimated to fall back a little, to £130m.

Even so the underlying revenue growth is extremely strong, with the income tax yield set to rise from £82.3m in 1985 to £130.1m in 1988, an increase of nearly 60 per cent over three years. A rather similar trend is visible in Guernsey where the income tax yield rose 45 per cent in the three years to 1986, and where the recent strength of finance industry profits appears to underpin further rapid growth in revenues.

With the economies of the two islands approaching boiling point there is no case for a general expansion of public sector spending. So large surpluses are being set aside for the future. In 1988 Jersey is planning to stash £40m (£500 per head of the population) away in its Strategic Reserve, set up two years ago and now containing around £21.5m; it is defined as a "rainy day" reserve.

The flow of wealth is impressive, but is not without its problems. There is inevitably resentment by older industries at the mushroom growth of a johnny-come-lately sector like finance which is draining labour away from other employers and is sharply pushing up costs, both of labour and of property.

This is the political motivation for the restrictive "control of undertakings" legislation which has for some years been in force in Jersey and although not official policy in Guernsey is being called for by an important minority faction in the States. The argument is that a simple clamp on immigration, which has been recommended to Guernsey by its consultants - Peat Marwick McLintock recently completed an economic review of the island, and proposed a system of work permits - would be inflationary.

It would permit the finance industry to continue to expand and therefore to bleed the rest of the economy dry, draining the best staff from both the private and public sectors. On the other hand, a control of undertakings law could, as in Jersey, at least in theory, be used to freeze the number of employees in individual financial or other companies.

But Roydon Falla, president of the Advisory and Finance Committee, told the Guernsey States last month that it would be wrong to talk glibly about restraining growth in the finance industry. "We must scrutinise our policies carefully to ensure that no unnecessary strains are put on the leading sector in our economy," he said.

Certainly the Channel Islands cannot afford to take their prosperity for granted. The Isle of Man is now becoming more than just an overspill zone for Jersey and Guernsey. Its competition is, for example, forcing Guernsey to modify its policies on the taxation of offshore insurance companies. And not only companies but also people are now seeing the Isle of Man's potential as offering an escape route from Channel Island bureaucracy and congestion.

Entirely new contenders are also entering the offshore finance business within the European time zone. Madeira has just announced an initiative, and so has Dublin, which is building a complete new "offshore" financial services centre in the redeveloped Custom House Docks.

"Dublin could be interesting to a lot of companies," says one Guernsey financier who has found it very difficult to expand and find new premises in the island.

Both Madeira and Dublin are inside the European Community, as indeed is Gibraltar, which could be a significant contender if it could improve its image. Already it is an important centre for serving the lucrative retired expatriate markets along the Costa del Sol and the Algarve.

Then there is Luxembourg, a powerful competitor which is raking in large volumes of business from the Continental European markets which the Channel Islands have neglected. "The constitutional position of the Channel Islands is not well understood," claims a Luxembourg private banker. "It is thought they could be taken over by the mainland. So Continentals tend to go elsewhere."

However that may be, the status of the Channel Islands as independent of the EC, at least for the purposes of financial services, is said by some to be a strategic mistake.

With the internal EC markets opening up in two years' times through the so-called UCITS legislation the Channel Islands could be at a disadvantage. This is a hotly debated area, but certainly many British groups are now setting up investment funds in Luxembourg.

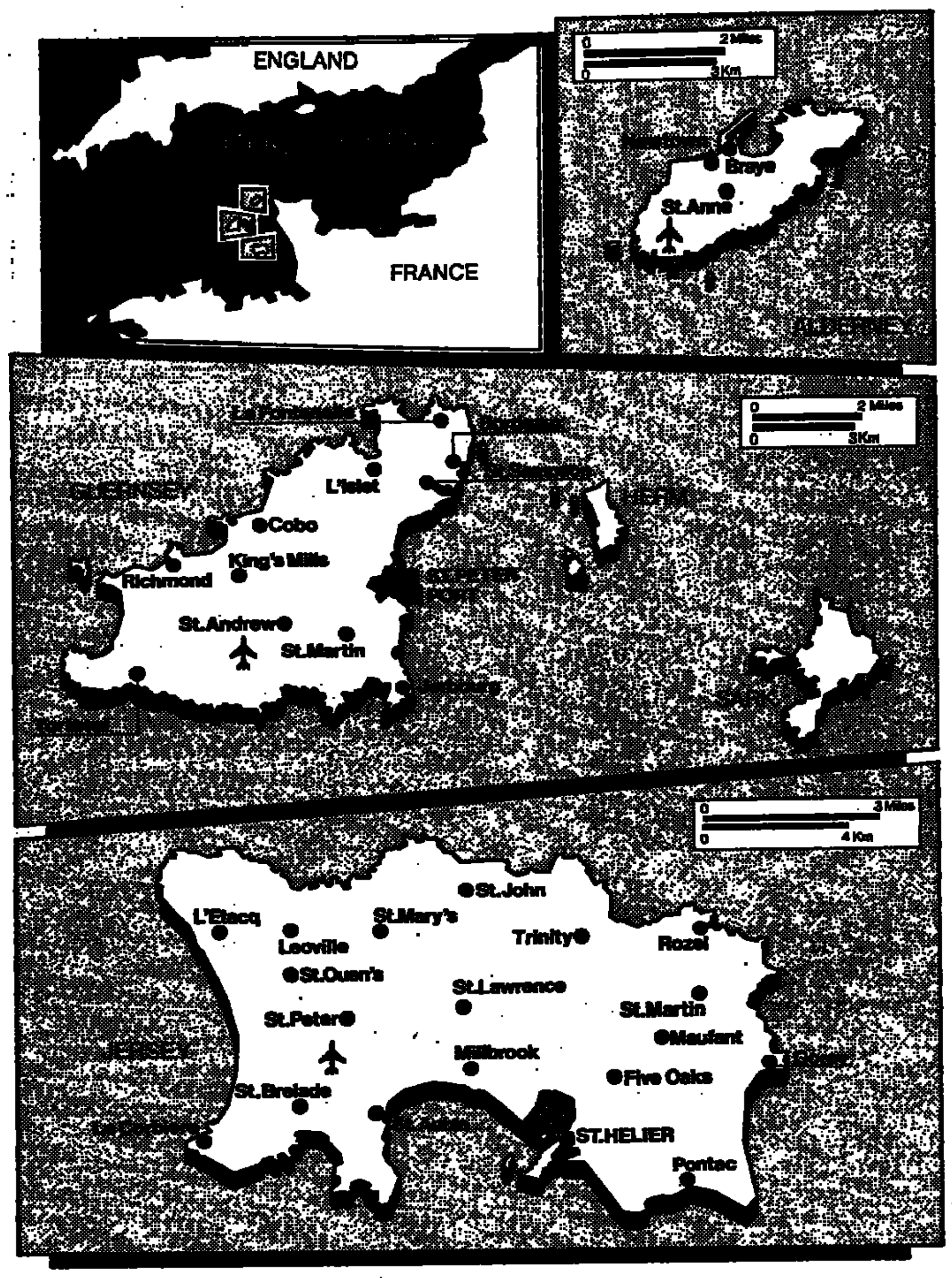
The other main challenge is from the UK, which is happy enough to see the islands prospering but might change its attitude if it were felt that this boom were somehow at the expense of the mainland. Certainly the Channel Islands are anxious to co-operate in policing drug money laundering or fraudulent activities.

But in the process the reality of the much-trumpeted "confidentiality" offered to offshore investors is being called into question, and the islands are being forced to enact what amount almost to photocopied versions of the mainland legislation such as the Financial Services and Data Protection acts.

The economic boom in the Channel Islands continues. Yet its durability cannot be taken completely for granted.

Both Guernsey and Jersey have been reviewing their machinery of Government

Traditional structures under strain



ELECTION FEVER is not exactly the phrase for it, but the Channel Islands are this winter in the process of selecting their political representatives, which they do every three years. Jersey's main elections were held last month and Guernsey citizens vote for their States (parliament) deputies in March next year.

In the absence of political parties or any centrally-focussed cabinet style of government, elections only have a slight impact on the general direction of politics in the islands.

The new legislative bodies, like the old, will be grappling with the current problems of success. In both islands the booming finance industry has endowed the governments with huge tax revenues. But it has provoked serious problems of rising population and has aggravated social stresses deriving from the squeezing out of older industries such as agriculture.

Accordingly both Guernsey and Jersey have been engaged in strategic thinking, and have brought in the same firm of management consultants, Peat Marwick McLintock, to produce reports. A review of the policy planning process was completed for Guernsey in August 1986, followed by an economic appraisal in July this year.

Only last week, it was Jersey's turn with the publication of Peat Marwick's review of the machinery of government, the result of a four-month study.

The political problems of the Channel Islands partly stem from the increasing burdens being placed on the elected representatives. Traditionally the islands have been governed through a series of quite loosely linked committees rather than by central bodies. But the chairmen of the committees now have virtually full-time jobs, and even the ordinary deputies are often tied up with political duties for two or three days in a week.

At the same time the growth of the finance industry, with its special needs for detailed regulation, has strained the traditional structure and has highlighted weaknesses in the overall planning and co-ordination arrangements.

In a debate on November 25 the States of Guernsey approved a number of measures to formalise the processes of policy development and financial control. But there was heated debate over the means of limiting population growth, perhaps the single most controversial issue in both islands at present.

Peat Marwick, perhaps influenced by the wishes of the powerful Advisory and Finance Committee which commissioned the two Guernsey reports, came down against the idea of a control of undertakings law similar to that already operated by Jersey.

Instead the firm recommended a system of work permits. A control of undertakings law would be "too drastic a measure," according to Mr Roydon Falla, president of the Advisory and Finance Committee. There would be too many loopholes, and anyway it would hit other industries besides the finance industry which was the focus of the problem.

But there is a strong undercurrent within the States in favour of the control of undertakings solution which some businessmen feel would be less inflationary because it would limit the demand for labour as well as restrict the supply.

So although the Advisory and Finance Committee plainly does not relish the idea of operating such an interventionist policy, preferring a simply operated limitation on the number of jobs, it has been told to report again by next May on the control of undertakings approach.

In Jersey, the Control of Undertakings law was strengthened last summer to make its impact more uniform. Until then it had impacted mainly upon companies that wanted to expand into bigger premises.

In theory the law is tough but, in practice, the problem is that it has not actually succeeded in

Mr Roydon Falla, President of Guernsey's Advisory and Finance Committee: "a control of undertakings law would be too drastic a measure."

bringing population growth within target levels. The amount of flexibility with which the controls are exercised could no doubt be reduced over time as pressures on the economy increase. But then the controls might begin to do more serious damage.

Peat Marwick's Jersey review focuses on structural questions. The firm was asked to report on the presupposition that the basic framework of committees would remain. There was some controversy about this, with some politicians believing that the consultants should have been given a freer hand. But in general there is little demand in Jersey for a different, ministerial style of government.

Within this restricted frame of reference the most important recommendation is that the island needs a central Policy and Resources Committee to ensure that the work of the States is co-ordinated. Essentially it would bring together both policymaking and the control of financial resources, functions which are at present separated.

This new committee, say the consultants, should itself review the existing structure of committees, with the aim of cutting down the numbers and making them more broadly based. There should also be more delegation to civil servants. The States and the committees too often get bogged down in details, say the consultants.

In particular, a restructuring of financial regulation is recommended, with a new committee, or possibly an independently-constituted commission, to take responsibility in this rapidly developing area. The Isle of Man, it should be noted, has already set up a Financial Supervision Commission and Guernsey expects to establish one next year.

According to Barrie Collins, the Peat Marwick partner in charge of the review, the recommendations are designed to take into account the need to manage greater prosperity and to cope with increasing complexity. The emphasis on delegation will cut the workload on States members and free them to concentrate on the strategic issues.

Barry Riley

Immigration controls

The dominant issue

THE IMMIGRATION issue has dominated public debate in the Channel Islands since the results of the 1986 census became known.

Jersey's population was shown to have risen by 5.2 per cent since 1981 to 80,212 and Guernsey's by 4.1 per cent to 55,482. Continued growth at that rate in already densely populated islands would, it was agreed, put intolerable pressure on land, housing and public services.

The spectre of overcrowding is the unwelcome side of the island's present prosperity. Jersey and Guernsey have virtually full employment with staff shortages in many areas - a situation clearly liable to suck in hundreds more people from the UK mainland unless constraints are applied.

The problem therefore is how to reduce the demand for outside manpower without putting on the brakes so hard that the economy begins to suffer.

Everyone from politicians and professional bodies to phone-in callers to local radio stations has offered views on how this balancing act should be achieved. Public opinion has shown an increasingly ambivalent attitude towards the finance industry, acknowledging its value but blaming it for many of the current pressures, such as wage inflation and soaring house porices.

The debate has also brought strong attacks on government policy from the business community. Ironically, this has happened in both islands, even though the Jersey authorities are proposing to do very much what Guernsey businessmen condemn their political leaders for not doing.

Jersey intends to tighten the control it has exercised since 1974 through its *Regulation of Undertakings and Development* law. This allows the Finance and Economics Committee to veto the setting up or expansion of a business if it is not considered to be in the island's interests.

So *far* this law has not been used to any extent to discourage business ventures by Jersey people, but now all job-creating developments are to be closely scrutinised. Previously, too, permission to take on more staff has been needed only where a business was moving its premises but under the new regulations staff increases generally will come under control.

From early next year firms will have to submit quarterly employment returns and, with certain exceptions, get official permission to add staff. The exemptions are likely to be where large numbers of seasonal workers are needed, as in the hotel trade, or where only a very small staff increase is involved.

Local clearing bank managers, the Jersey Bankers Association, the local branch of the Institute of Directors and the Law Society all attacked this proposed government move into the employment field as restrictive, bureaucratic and particularly damaging to offshore finance business. One lawyer declared: "If it is passed, I think Jersey will have shot itself in the foot."

In the event the regulations had a surprisingly easy passage through the island parliament with not a single member challenging them.

Since then Jersey's Economic Adviser, Colin Powell, has been at pains to reassure the business community that the bite of the new control won't be as bad as their bark, especially if employers economise on imported manpower by making full use of computerisation and training up local staff.

Now that the regulations are imminent, few of the island's bankers and other professionals appear to think they will have the dire effects originally predicted; indeed some companies have been quietly submitting long-term expansion plans for approval. Nevertheless uneasiness persists over this enlargement of government powers.

In Guernsey, the Advisory and Finance Committee has come under heavy fire for not following Jersey's policy of trying to restrict job creation and proposing instead to bring in a system of employment licences.

The decision was taken on the recommendation of accountants Peat Marwick McLintock as part of their economic appraisal of Guernsey. Recognising that there was "an overwhelming case for a new initiative to control population," the consultants advised against regulating the growth of undertakings, mainly on the grounds that this would hit hardest the most buoyant sector of the economy, the finance industry.

The employment licensing proposals are to be debated by local MPs next year and, if approved, will affect anyone without residential qualifications who arrives in the island on or after July 24, 1987. Licences will be for a specified period only and the number available to each sector of the economy will be decided annually.

Six local trades and professional bodies issued a joint statement strongly criticising the proposed measures which they claimed would squeeze the labour market even more tightly, creating an unbalanced economy, wage inflation and a divided community, unless the underlying problem of generating too many jobs was tackled.

The business community's lobbying was more successful than it had been in Jersey. Last month, Guernsey's parliament called on a still unconvinced Advisory and Finance Committee to report back on "methods by which control on the growth of undertaking might be implemented." So the argument seems set to continue well into next year.

Edward Owen

The stock markets' crash has so far only dented the boom in the financial sector. Its problem, reports **Barry Riley,** is still..

A balancing act between growth and resources

THE RECENT stock market crash may have been severe, but it has so far only dented the surface of the finance industry's extraordinary boom in the Channel Islands.

Although profits from fund management will inevitably decline after the fall in value of equity unit trusts, fund managers are agreed that there has been no marked withdrawal of money by investors - and anyway there are some very big bond and currency funds in Jersey and Guernsey which, if anything, have risen in value in recent weeks.

In just about all other respects the offshore finance industry continues to prosper. Guernsey's banking industry profits jumped 29 per cent to £49.9m last year, and the Jersey finance sector earned £105.7m, up a fifth.

The problems are almost entirely those of success, with the sheer growth of the banks, trust companies, fund management groups and insurance companies putting increasing pressure on the islands' limited resources of labour and office accommodation.

In a delicate balancing act, both islands are now trying to limit the rate of growth while trying to avoid giving the impression that they are full up.

"We are going to be forced to look at the type of business we are doing, and possibly move up market," says Barry McCance, managing director of Grindlays Bank (Jersey) and president of the Jersey Bankers Association. "The problem will be not to give the wrong impression overseas."

Within the past year prestigious mainland institutions such as Robert Fleming, the London merchant bank, and Clerical Medical and General, the big mutual life assurance office, have failed to receive a welcome and have gone instead to the Isle of Man.

Some Channel Island bankers feel that it would be better for the authorities to be more active in weeding out existing borderline financial companies both to make way for high quality newcomers and to create headroom for expansion by the resident blue chip operators.

But the islands do not appear to be aggressive in this direction, although constant pressure is exerted by the compilation of confidential league tables. Figures given "voluntarily" by local companies allow the authorities to measure the contribution of the various financial institutions in terms of benefit to the local economies.

A good showing in these league tables is important when, as one Jersey financier puts it: "You've got to go cap in hand to Colin Powell to employ another secretary."

Mr. Powell, Jersey's powerful economic adviser, simply says that the island's draconian Control of Undertakings law, recently strengthened still further, is "a control that we hope we don't have to apply too rigorously."

The Jersey authorities now have the power to prevent any company from increasing its staff numbers. But Mr. Derek Maltwood, the Jersey-based chairman of stockbrokers Hoare Govett (CI), agrees that the authorities are "approachable, understanding and will listen to a good case."

Meanwhile Colin Powell insists that there are still opportunities for what he describes as "institutions of stature" to enter the island. Hence the recent granting of licences to Abbey National and Halifax, the two biggest UK building societies which want to tap the expatriate savings market through Jersey.

But in general Jersey will only allow in new institutions which have something special to offer. The building societies (one of which is taking over an existing local deposit taker) provide a case in point.

The hypothetical example is also often given of Japanese banks, which potentially would offer a new area of geographical diversification for the Jersey banking industry (and the same would apply to Guernsey). However, the Japanese seem to be able to manage without pitching their tents in the Channel Islands.

Both islands are trying to avoid the impression they are full up

Guernsey has attempted to find a way around the banking log-jam by promoting the idea of managed banks, which have no separate physical presence (apart from when the directors arrive for local board meetings) but share staff and premises with established local banks. For instance, since mid-year Henry Ansbacher has played host to Banque Paribas (Suisse), actually a bank with which it has some shareholding links, bolstering what is necessarily a somewhat intimate relationship.

Part of St Helier Jersey's banking district under the watchful eye of (insert) Mr Colin Powell, Jersey's powerful economic adviser. Despite the strengthened controls over businesses, he stresses that there is still room for " institutions of stature" to enter the island

In a letter last May to all Guernsey banks John Roper, commercial relations adviser, explained why the Advisory and Finance Committee favoured the managed bank concept.

"The Committee intends by the implementation of this policy to maintain the open character of Guernsey as a financial centre and the expansion of the finance industry while minimising demand on already scarce resources," he wrote.

Mr. Laurence Morgan of Ansbacher explains that four members of his staff have designated responsibility for Paribas (Suisse) business, which is transmitted to Guernsey by a variety of means including a direct computer link with Geneva.

"Mr. Roper is most anxious that they should not be seen as a brass plate operation," he says. So far, however, only one other managed bank has been established in the island, Bank Mercantil, from Venezuela; which operates through the auspices of the Royal Bank of Scotland.

There are also two managed banks in Jersey, although the authorities there seem to be rather more lukewarm about the concept. "We are not negative towards managed branches," says Colin Powell, "but from a regulatory point of view it is preferable for banks to have a physical presence."

In spite of the restrictions on new licences, bank deposits are growing, by about 15 per cent over the past year to some £26bn in Jersey, and to nearly £10bn in Guernsey, which is dominated by private banking rather than the booking of international commercial loans, which swells Jersey's total.

As for investment management, more than £5bn is estimated to have been managed in Jersey at the market peak, and probably £4bn in Guernsey, although the equity market slide will have reduced these figures in the past couple of months.

Channel Island banks are being driven by the physical and profitability constraints into this area of securities and trust business which carries higher margins than do basic banking operations. Unfortunately, the shift is tending to aggravate the staff problems.

Greater skills are needed in securities business and computerisation is often less easy, although eventually the London Stock Exchange's paperless settlement system called Taurus will help matters.

Unit trusts simplify the securities business somewhat, and it is no coincidence that Jersey and Guernsey have moved heavily into the management of collective investment schemes.

Bruce Riley, managing director of Guinness Flight in Guernsey, which manages nearly $500m of assets even after the crash, in 28 funds, says that although some investors have been shell-shocked by the events of the past few weeks the company's "umbrella" fund structure has limited the outflows. Investors can switch into less risky funds rather than pull their money out entirely.

"I see a lot of growth yet," he says. Increased use of computers has helped to overcome some of the problems of labour shortages. But he adds: "Employers are going to have to become more flexible, for instance by being willing to take on more part-timers."

While labour scarcity may be a problem, at the same time the rapid improvements in telecommunications have made the Channel Islands much more flexible centres for international financial business.

Andrew Lampert has just completed a year in Guernsey running the only North American stockbroking firm in the Channel Islands, a branch of Dean Witter Reynolds (Canada). He thinks there is plenty of scope for other offshoots of big names to open up, aided by the low tax advantages for highly paid staff.

In this way the range of services and skills available in Guernsey can be broadened. "They can enhance the island by their presence without disrupting the environment," he believes.

The crash has inevitably hit his previously booming business but he adds philosophically: "Guernsey is a good place to ride out a bear market."

Overriding all else in the Channel Islands finance industry is the need to maintain the islands' reputation as honest and politically stable centres.

This favourable image has brought dividends recently when clouds have gathered over some Caribbean tax havens and political risks have become more evident in Hong Kong. But there is an inevitable conflict with the confidentiality which has been an important selling point in the past.

Mainland jurisdictions are these days insisting on greater co-operation and Guernsey and Jersey are trying to cast off the image of havens for dubious characters carrying suitcases full of notes.

Inquisitive foreign tax inspectors will still get a frosty reception. But last year the Jersey courts stripped the secrecy away from controversial payments made by Guinness through a Jersey intermediary company, payments which eventually finished in a Swiss bank account.

"You can't stress confidentiality nowadays because of the worldwide move towards exchange of information," says Barry McCance of Grindlays (Jersey). "We don't mind so long as it is done legally. We don't want a trawling operation."

Colin Powell points to the insider trading law recently passed by the States of Jersey, and the drug trafficking offences law to be enacted in 1988. He also suggests that the Jersey authorities will give consideration to whether a response is required to the UK's current Criminal Justice Bill in relation to serious fraud.

"The island recognises the importance of international co-operation in coping with organised crime," he says.

Jersey 1988 budget

Revenue	£m
Income tax and corporation tax	130.1
Impots	12.7
Motor tax	1.1
Profits of trading committees	6.8
Total	150.7
Net public spending:	95.2
Balance of income over expenditure	55.5

Source: Finance and Economics Committee Budget 1988.

Jersey and Guernsey new company registrations

	Jersey	Guernsey
1983	2,557	1,033
1984	2,778	1,168
1985	2,912	1,271
1986	3,040	1,423
Total registered at end-1986	22,963	10,035

Guernsey bank profits and deposits

Year-end	Number of banks	Bank profits £m	Bank deposits 3m
1980	43	18.5	1,800
1981	42	17.5	2,691
1982	41	23.0	3,307
1983	41	26.0	4,243
1984	45	33.0	5,838
1985	47	38.8	7,209
1986	52	49.9	8,920*

*£9,508m including clearing bank branches.

Source: Guernsey Statistical Digest.

Jersey income and corporation tax

	Yield £m	
1985	82.3	actual
1986	103.0	actual
1987	134.7	probable
1988	130.1	estimated*

*after £5.2m revenue reduction due to increases in income tax allowances.

Guernsey GNP

at constant 1986 prices	£m
1977	313
1978	348
1979	375
1980	362
1981	356
1982	362
1983	382
1984	402
1985	433
1986	473

Source: Guernsey Statistical Digest.

Jersey income tax payable 1988

married couple with two children

Aggregate earned income £	Tax £
9,850	nil
10,500	195
12,000	795
15,000	1,450
20,000	2,450

Standard rate of income tax 20 per cent.

Guernsey's insurance industry has matured but faces ...

Stiffer competition

THE GUERNSEY *insurance* industry last month paid out $38,000 on what must be the world's oldest risk - a Roman vessel which sank 1,700 years ago in what is now the mouth of St. Peter Port harbour.

A dummy Lloyd's of London insurance slip was subscribed with real money in order that the raised wreck, dubbed the "Asterisk," can be impregnated with polyethylene glycol and eventually installed in a special building.

The slip attracted 123 subscriptions including a personal contribution from the chairman of Lloyd's of London, Mr Peter Miller. The scheme illustrated the growing size and maturity of the island's insurance sector.

Offshore insurance is one of the most competitive areas of the offshore finance business, but Guernsey is determined to hold on to its position as one of the leading centres for so called "captive" insurers.

A strong challenge from the Isle of Man, however, has forced some changes of policy on Guernsey, which has already been facing significant transatlantic competition from Bermuda and the Cayman Islands as well as Luxembourg on the Continent.

Guernsey (it should be noted that Jersey does not compete seriously in the insurance business) has 108 captives within a total of 147 offshore insurance companies of all types. It is growing, having added 15 or so new captives over the past year, but in volume terms it is a long way behind Bermuda, which has over a thousand companies, and Cayman, which has around 370. The Isle of Man has only about 50 but it is in the same time zone as Guernsey and has been expanding fast.

"We are failing to attract some of the business we should do," says Stephen Butterworth, Guernsey's insurance superintendent. One response has been to change the tax system, so that payment of the 20 per cent charge on profits can be postponed to allow extensive reserves to be built up, an especially important point for "long tail" business where the liabilities do not become clear for several years.

But further developments are under consideration, with a more radical recasting of the tax laws. This was recommended in the recent Peat Marwick independent economic report on Guernsey. At present Guernsey insurers pay 20 per cent tax on their profits, but jurisdictions such as the Isle of Man charge no tax but only modest fees.

According to a recent statement put out by the Guernsey authorities: "Guernsey insurers recognise that they should contribute to the local economy by paying taxes." But the competition comes from centres where the main local benefit is sought from fees (including professional incomes) and from associated business travel. The appeal of offshore insurance to Guernsey is that it can bring useful revenues to the island without creating significant numbers of jobs locally at a time when labour resources are stretched to the limit.

Guernsey already has a well-developed infrastructure, with up-to-date insurance legislation passed last year, and a score or so of resident firms which manage captive insurance companies.

Mr Stephen Butterworth, Guernsey's Insurance Superintendent: "We are failing to attract some of the business we should do."

Twelve have become associated through the Guernsey Insurance Managers Association.

The island has become something of a centre for offshore aviation insurance. Locally-based Polygon, managed by Transglobe Underwriting, started as a captive, and *is predominantly* owned by KLM, SAS and Swissair, but is now writing business *for many airlines.*

In general, however, the island is looking for the kind of captive companies which will only write a handful of individual policies (sometimes only one), will generate little paperwork, and can be added on to the existing business of the insurance managers. Bigger captives which might require their own staff are going to the Isle of Man, where several of the management companies now have parallel operations.

According *to Mr. Butterworth* the Isle of Man lacks the technical resources of Guernsey. "Most *Guernsey managers have under*writers with them," he says.

He says that there are indications of another 15 or so applications to set up new captives over the next year. "But *it is* very cyclical," he admits.

Mr. Butterworth is looking for a lot more of what are called "association" captives - owned by a group of companies, perhaps a trade association, rather than a single parent - and is also hoping to attract more business from Continental Europe where the captive concept has been slow to catch on and where the competition from Luxembourg has been strong.

Another sector of the insurance industry, offshore life assurance, where there are ten companies, is however facing increasingly severe problems because of the population pressures in Guernsey.

"Unfortunately they are labour intensive," says Stephen Butterworth, although he claims greater computerisation could *solve some of the difficulties.* The Isle of Man is again the main beneficiary of the rapid expansion in this sector.

Even in the captive insurance business the increasingly tight restrictions on business growth are becoming irksome. According to Ian Daish, chief executive of Transglobe: "Guernsey can no longer afford to be complacent about the insurance business."

He says that the island enjoys a high reputation, and existing client companies are enjoying healthy growth. "But new captives have not been coming in the droves they were," he observes.

Mr. Daish mentions the possibility of acquiring a new client company next year which might require the addition of 20 staff. "I need an undertaking that I can *get new staff in,"* he says, adding: "Guernsey has to make up its mind whether it wants us here."

Barry Riley

Data protection

Comparable confusion

CHANNEL ISLANDERS gained the right on the same day as UK residents to inspect the personal data about themselves held on computer files.

A data protection law went on the statute book in Guernsey on March 3 and in Jersey on September 1, with both islands meeting Britain's November 11 deadline for bringing the provisions fully in to force. This has enabled the British Government's ratification of the European convention to include the two offshore bailiwicks.

The island authorities made no secret of the fact that they were joining the computer club simply because they could not afford to stay out. The alternative would have been the disastrous prospect of their finance industries being cut off from transmission of computer data from the UK and the rest of Europe.

In practice, the island's laws are close copies of the UK Act.

But while the decision to follow the UK model was accepted quietly in Guernsey, the 350-strong Jersey Computer Association mounted a vigorous campaign against "slavishly copying" the mainland and succeeded in getting the parliamentary debate on the measure delayed for a month.

The Association argued that the proposed UK-style law was not only unnecessarily cumbersome but did not take account of Jersey's special needs as a finance centre. It saw no need locally for registration of data users and, when asked for its suggested amendments, returned the draft law with all references to registration struck out.

The Jersey States committee responsible for steering through the measure had doubts itself at one stage about adopting the UK law because of the amount of confusion it seemed to have caused. But the committee's president, Sir Martin Le Quesne, said that, after looking at the alternatives and meeting the UK registrar, Eric Howe, they could see no compelling reason for "going down a different road."

The official argument was that as most Channel Islands computer users had UK connections it was sensible for the local legislation to be the same. But Vic Hanby, chairman of the Jersey Computer Association, suspects that the island authorities also saw this as the shortest cut to ensuring Whitehall approval of their laws.

Meanwhile there appears to be much the same confusion as on the mainland over who needs to register. Jersey's data protection registrar, Ray Sidaway, and his Guernsey counterpart, Michael Clark, both think that many more users probably ought to register than have so far done so, although they admit they have no idea what the total should be.

One of the finance community's initial fears was that trust and company administrators might have to register individually all their thousands of clients. In the event, both Jersey and Guernsey have decided that this is unnecessary where the trust or company has a non-resident beneficial owner, and only the administrator itself need register.

An advantage of copying the UK Act, *it has been argued*, is that the islands can benefit from clarifications of the law and court decisions reached in the UK.

But Vic Hanby sees dangers in this. "By tying ourselves to the UK law, we are also tying ourselves to the practices and precedents established over there and to any additional requirements they bring in. I think in the long term this could have serious implications for the islands' *independence and their operation* as financial centres."

Edward Owen

Investor protection

Rush to match UK rules

SECTIONS 87 and 88 of the UK's Financial Services Act 1986 are *causing a good deal of aggrava*tion for Jersey and Guernsey just now. And Guernsey, at least, has more than a passing preoccupation with Section 130 too.

The full provisions of the UK's new investor protection legislation are now due to come into effect next April, in less than *four* months' time. It looks as though the impact on unrecognised offshore funds will be tougher than under the existing Prevention of Fraud (Investments) Act.

It will become illegal for UK intermediaries to market such funds (even to expatriates) whereas until now it has been possible for offshore funds to be sold so long as they have not *been advertised or otherwise* promoted.

Moreover, it has been open to fund promoters to obtain a listing on the London or other recognised *stock exchange*, in which case the obstacles to mainland marketing have mostly disappeared.

But from next April such listings will be irrelevant, and in fact the London Stock Exchange has written to offshore funds warning them that because it *may no* longer be possible for them to issue shares freely they *may* cease to qualify for a listing.

However, none of these dire consequences will affect Channel Island funds if Jersey and Guernsey can take advantage of the key escape *provisions* in the Financial Services Act, set out in Section 87.

This provides that funds domiciled in "designated territories" will be *eligible for marketing on* the mainland. The UK's Secretary of State for Trade and Industry will grant designated status so long as he is persuaded that such territories provide equivalent investor protection to that provided on the UK mainland.

The Channel Islands intend to apply for designated status, and Jersey is *rushing* to enact its own collective investment undertakings law. Guernsey *already has such legislation in* place, but that is not the end of it because the islands also need to draft detailed regulations to be enforced under the enabling laws.

From the Channel Islands' point of view there are good and bad aspects to the new mainland legislation. On the one hand, there is great uncertainty and the offshore specialists are liable to mutter under their breath about an aggressive act of extraterritoriality by the UK. On the other, it is agreed that the mainland regulators are being extremely helpful and co operative, and *once* designated territory *status is obtained* the Guernsey and Jersey funds could in some ways be better off than before.

The big problem at present is that seemingly impossible time pressures apply. Consequently the Channel Island regulators are trying to cut corners by simply reproducing whole chunks of the UK legislation in order to reduce the chances of arguments: there can be no dispute about "equivalence" if the rules are exactly the same.

However, the existence of two types of funds - both open-ended investment companies and unit trusts - complicates the issue. On *the mainland there are only unit* trusts.

Another problem area is that of compensation, where even the mainland rules are unclear yet, and offshore centres could face problems given their relative lack of resources.

Apart from Section 87, the Channel Islands are also pursuing the possibilities raised by Section 88 of the Financial Services Act, which proposes an alternative route to recognition. *This relates to individual funds*, which would themselves have to prove they were able to provide "adequate protection."

Exactly what this means remains obscure, and it is not evident whether the provision is meant to apply to centres like Jersey and Guernsey, which each are host to several hundred offshore funds with assets of the order of £4bn on each island. However, the Channel Island authorities are looking at the possibilities.

The Channel Islands are not in a position to take advantage of yet another route to recognition by the *mainland*, Section 88. This applies only to funds registered in member countries of the European Community. So Jersey and Guernsey funds could be at a disadvantage in some respects to the increasing number of funds being set up in Luxembourg. Gibraltar, too, counts as being part of the EC.

Can the Channel Islands meet the April deadline for designation under Section 87? "We are going to find it difficult," admits James Jenkin, Jersey's assistant commercial relations officer. Quite apart from the need for drafting and enacting new laws and regulations, *there will be* a requirement for individual funds to change their constitutive documents, involving the calling of meetings of members.

Richard Wilkinson, chairman of the Jersey Fund Managers Association, is concerned that the UK regulations themselves will not be finalised until February. "What we badly need is a transition period," he says.

Mr Wilkinson, who is managing director of MIM Britannia International, says that although the UK sales of his company's 25 funds are often small, there is some mainland business for 20 of them and as much as half the gilt fund has been sold into the UK. "We don't want to lose a market for any fund," he argues.

James Jenkin says that Jersey will need a UK class of fund, and managers will have to decide whether to apply for this status *which would require payment of* extra fees to the Jersey authorities. "It won't be a tremendously large number of funds," he considers.

Guernsey has the slight advantage of having enabling legislation already in place, but it still has to set up appropriate detailed rules. One complication is that there are a number of offshore life assurance companies in Guernsey which will also be affected by the mainland legislation although they are covered under a different part of the Act. They will need to be recognised by the UK authorities under Section 130.

This section, like Section 88, requires "adequate" protection to be demonstrated and the sticking point may well be the need for Guernsey to show that there are equivalent safeguards to those provided in the UK under the Policyholders Protection Act.

On the mainland, buyers of life assurance products are given 90 per cent protection should their company fail. This is achieved through an industry-wide compensation scheme. But a similar plan for an offshore centre like Guernsey is considered to be impracticable because the failure of one company would be much more expensive for the remain*ing life offices than in the UK* where there are several hundred companies.

Philip Goldsmith, marketing director of the Guernsey company, *Providence Capitol International*, is also chairman of the newly-formed Offshore Life Offices Association which has members in the Isle of Man and *Luxembourg* as well as the Channel Islands.

He says that several schemes are being discussed, including OLOA-wide schemes. "The main thing is to get something agreed and approved before April. Personally I welcome policyholder protection. It will make marketing much easier."

Barry Riley

Alderney and Sark

A healthy year ahead

FOLLOWING consultations with Guernsey's government, the Home Office and the banks, Alderney is proposing to introduce its own money - coins and possibly notes as well.

Says the chairman of the finance committee, Roger White-Smith: "We must be one of the few self governing communities around the world that doesn't have its own currency."

Unlike Sark, which has an unbroken history of independence within the overall jurisdiction of the Guernsey Bailiwick, Alderney's community was rebuilt after the second world war, during which the island had been evacuated and used by the Germans as a slave labour camp.

A new constitution in 1948 set up a parliament of nine members, subsequently increased to 12, and a President, all elected by universal suffrage. This makes Alderney the only Channel Island with a democratically-elected head of government. Jon Kay-Mouat the island's resident advocate, begins his fifth consecutive term of office as President next January.

But the 1948 reconstruction also made Guernsey responsible for underwriting the smaller islands financially so that today Alderney - only three and a half miles long by one and a half miles wide - is tied to the increasingly sophisticated lifestyle of its prosperous neighbour.

The 2,200 inhabitants are mostly settlers from the UK who pay Guernsey's rate of income tax, social insurance and duty. And the island has to foot the bill for Guernsey's administration of main services such as education, public health, social security the airport and policing.

Although an extra few thousand pounds in tax returns is often all that is needed to swing Alderney's annual budget out of the red and into the black, the economy - based largely on wealthy settlers and tourism - is very vulnerable.

This year looks healthy enough with a 10 per cent rise in tourism a record number of visiting yachts and an expected accumulated budget surplus of £500,000.

The forecast for next year is even better, with an expected surplus of £750,000. The tourist trade is likely to get a boost from a new link by Condor hydrofoil from Weymouth operating three times a week from June 16. The service will also provide better sea connections between Alderney, and Guernsey and Jersey.

Lately, the authorities and local businessmen have been trying to extend the scope of Alderney's prospects by attracting finance business that would be considered too small for Guernsey or Jersey.

A couple of trust companies are expected to establish themselves in the little town of St Ann as a result, while talks are proceeding between the finance committee and what is seen as the most promising form of new business - smaller UK building societies seeking offshore offices.

Roger White-Smith admits that the credibility of tiny Alderney as a centre for even modest offshore business is probably the biggest hurdle to overcome.

Yet for organisations such as small building societies, freed under new UK legislation to court custom from expatriates, the island has advantages.

Sark has to face the fact that an invisible income may dry up

Unlike Jersey and Guernsey there are no restrictions on outsiders buying and occupying property. And although Alderney - alone in the Channel Islands - has a work permit system in operation local businessmen say that there will be no difficulty about obtaining permits for anyone benefiting the community.

The Channel Islands airline Aurigny Air Services is based in Alderney and beside providing good links with Jersey, Guernsey, Southampton, Bournemouth and Cherbourg makes it perfectly feasible to undertake day return business trips to London.

And although no one is going to boast about Alderney's "infrastructure" the island is completely integrated with Guernsey's Telecom system which provides direct dialling to 170 countries worldwide telex and fax transmission and facilities for computer links.

Alderney has a separate company law dating from 1894, but in this context Guernsey's Big Brother' role has the advantage of ensuring the same standard of supervision.

Some local businessmen think that Guernsey has done nothing to point finance industry 'crumbs' too small to interest the smaller island, in Alderney's direction. There is also resentment about the Guernsey Post Office's handling of Alderney stamp issues.

In 1981 it was agreed that the Post Office would produce stamps specifically for Alderney, which would receive net profits after deductions for printing administration and any losses incurred in operating Alderney's mail service.

The first definitives were issued in 1983 and up to 1985 Alderney's profits annually were around £50,000. But the Post Office claim that the cost of operating the postal service exceeded profits in 1986 - a loss borne in this instance by Guernsey.

Costs this year are also expected to exceed profits and no new issue is planned for 1988.

Confronted with this plunge from profit to loss, Alderney has appealed to Guernsey's Advisory and Finance Committee and the subject is still being discussed. In the meantime, Alderney is determined that proposals for the island's currency will be kept under its own control.

The tiny island of Sark, meanwhile, is having to face the fact that an invisible income which has discreetly earned its 500 residents thousands of pounds annually for many years and may soon dry up.

The finance committees in Jersey and Guernsey have agreed in principle to introduce a new kind of tax-exempt, non-resident company that would no longer be required, as at present, to have a majority of non-local directors and hold board meetings outside the islands.

Sark has prospered by being the most convenient location for such meetings and director-renting there has grown into big business for some inhabitants and a useful supplementary income for others.

Tales of board meetings held over the washing up in small cottages and of directors more used to gutting fish than holding a ballpoint have led to the practice being nicknamed 'the Sark lark'.

Not a penny from these earnings goes direct into Sark's general revenue because there is no income tax. But all Sark's services and facilities from its restaurants to its children's boarding school fees and the upkeep of its houses has benefited from the bonanza

Michael Beaumont, the hereditary Seigneur, has warned that it will have serious long term implications if this source of livelihood disappears. But so far no one has mentioned the unmentionable - the introduction of income tax for the feudal isle.

Willa Murray

Bob Baker examines the islands' busy media scene

BBC will enter the TV news race

FOR SUCH relatively small communities, media activity in the Channel Islands is intense.

Both Jersey and Guernsey have their own, separately-owned, daily newspaper selling respectively around 25,000 and 16,400 copies six days a week and, with more than two readers per copy, claiming virtually "saturation" circulation.

Channel Television, the Independent Television Authority's smallest contractor, with studios in Jersey and Guernsey, claims up to a 75 per cent share of local viewing figures for their "flagship" news and current affairs programme Channel Report at 6pm every weekday.

The BBC's radio stations, set up five years ago as separate operations in Jersey and Guernsey, have what are described as the highest listening figures of any of the Corporation's local radio operations. Spurred on by such support, the increase in their programming has been phenomenal.

For example, the Guernsey station started with four staff broadcasting 75 minutes a day, five days a week. Now there are 14 staff and the station broadcasts 42 hours of material a week - an average of six hours a day.

The latest audience research figures show a 71 per cent weekly "reach" enabling the Corporation to claim that 75 per cent of the population listen to the station at some time during the week. The Jersey station's figures are equally as impressive.

A further measure of the two stations' "pull" is that during the BBC's recent nationwide Children in Need Appeal, the Guernsey station raised £55,000 and Jersey's nearly £40,000.

Encouraged by such interest, the BBC is now planning to introduce its own, initially modest, Channel Islands "opt out" television news broadcasting operation. This is expected to get under way early next year.

However, Channel Television, started 25 years ago, is expected to remain the frontrunner in the local television race for some time to come.

After years of struggling against financial odds, CTV's fortunes have taken a distinct turn for the better, since just over a year ago they linked their screen time advertising sales operation to that of TVS.

Before that, financial viability was achieved by diversifying through subsidiary companies into such businesses as security systems and television rental.

For the year ended March 31, Channel Television announced an 80 per cent pre-tax profit increase of from £543,000 to a record £975,000.

With all its activities booming, the group has launched a rights issue to raise additional capital to finance their move next year into much larger new headquarters in Jersey.

Among other things, this will enable the company to produce much more programme material for export to the UK national ITV network and beyond.

Jersey's daily tabloid newspaper, the Jersey Evening Post, is due to celebrate its centenary in 1990 and claims NOP figures of 60,000 adult readers a day out of the population of 82,000. This, they say, "easily outsells the combined total of all UK national newspapers sold locally."

The newspaper is part of The Guiton Group, whose other media-orientated subsidiaries includes Michael Stephen publishers who produce a number of special interest and controlled-circulation titles.

One is Jersey Holiday Post, a weekly distributed to all hotels, guest hotels and camp sites each summer. It has a more upmarket winter counterpart - VIP Post.

Included, too, is a gloss magazine, Offshore Finance, distributed free throughout the world to provide a "shop window" overseas for the Jersey and Guernsey finance industries.

Michael Stephen have also just launched a local glossy magazine, Jersey Now, to be posted quarterly to 10,000 selected homes in Jersey.

The other "big gun" of the island media scene is a broadsheet daily, Guernsey Evening Press and Star, the "flagship" of the 90-year-old Guernsey Press Company's diverse printing, publishing, wholesale/retail and property-owning operations.

The company claim that their newspaper is read every day by 87 per cent of the island's adult population with only three out of every 100 adults not reading it at least once a week. This, they say, compares with only 62 per cent reading all of the national newspapers put together.

Like its Jersey counterpart, the Guernsey company, whose editorial staff use direct input technology, also produces a weekly newspaper largely for overseas circulation to expatriate islanders. In addition, for several years they have produced a free Saturday leisure and entertainment tabloid pull-out called Weekender.

With so much media activity, coupled with a bustling offshore finance industry, it is not surprising that there are several busy local advertising agencies.

Two of the largest, BdO and Wallace Barnaby, each with turnovers estimated to be in excess of £1m a year, have offices in both Jersey and Guernsey and are branching out into other offshore territories. BdO recently opened an office in the City.

Property

Migrant law inhibits the top end

PROPERTY FIRMS in the Channel Islands are trading in a market much like that of London's commuter belt, with plenty of money around and high earning professionals ready to go well into six figures for a house.

The value of residential property sales in Jersey over the 12 months to June 1, 1987, totalled over £170m, according to a computer analysis by local estate agents, Robin Stone Partnership, and the average price of a house was £94,000.

Jersey's figures are normally boosted by sales in the £1m region to what are known as k class buyers - a limited number of wealthy immigrants allowed in under section 1(1)(k) of the *Housing law*.

Over the past year, however, business in that sector has fallen off. The reason has been the decision of the island parliament to put tighter restraints on immigration, reducing the annual quota of rich settlers admitted from 15 to 5.

Jersey agent Freddie de Gruchy said: "The top end of the market has been very badly hit. There has been a considerable drop in prices."

Robin Stone thinks that the new restrictions have caused a loss of confidence among buyers in the £600,000 to £1m bracket.He points to the fact that, although the quota is five, only one wealthy immigrant has actually moved into Jersey this year under the k category.

He said: "The new controls initially had a depressing effect on the general property market, but most of it recovered quickly. Properties up to half a million pounds or so have been selling because professional people are now earning enough to pay that price.

"I am hopeful that the upper echelons of the market will pick up again next year as confidence returns. There have been signs of it with recent sales of £600,000 and £900,000."

Guernsey estate agents report almost the opposite trend in that island's so-called "open market" - a pool of 1,700 higher- priced properties available without restriction to newcomers.

Said agent Pat Swoffer: "Business at the higher end of the market from £300,000 upwards has been very good but the lower end has been pretty slack."

Under Guernsey's system a house jumps in price by being eligible for the "open market" register, representing the premium mainland buyers are prepared to pay for the tax advantages of local residence. The premium becomes more apparent as one moves downmarket so that a £700,000 property can look much better value than a £180,000 one.

Like the south of England, the Channel Islands have been experiencing a general steep rise in house prices. The impact on first time buyers and lower income families has been worst in Guernsey, where some properties are reckoned to have shot up by 40 per cent in the past year and where, unlike Jersey, there is no price control.

The combination of an acute housing shortage and escalating prices has led to an unexpected new market opening up in Guernsey – the sale of self-catering holiday flats and chalets as permanent homes.

At £30,000-£40,000 these properties have been bargains for young couples in an island where a house in reasonable repair is difficult to find at under £60,000. The Guernsey Tourist Board however, is worried about the loss of up to 1,000 beds and the loophole in the law that enabled this market to develop is now being closed.

Under Jersey's housing law any residential property transaction can be referred to a panel for scrutiny and the price reduced. The aim is to keep down prices for the less well off, but Freddie de Gruchy thinks this interference with market forces is counter productive. He cites the case where his firm obtained an offer of £96,000 but the housing authorities stipulated £72,000 with the result that the UK owner of the bungalow simply decided to leave it empty.

Fuelled by the continual growth of the finance industry the commercial property market is buoyant - almost too buoyant since the demand for office accommodation exceeds supply.

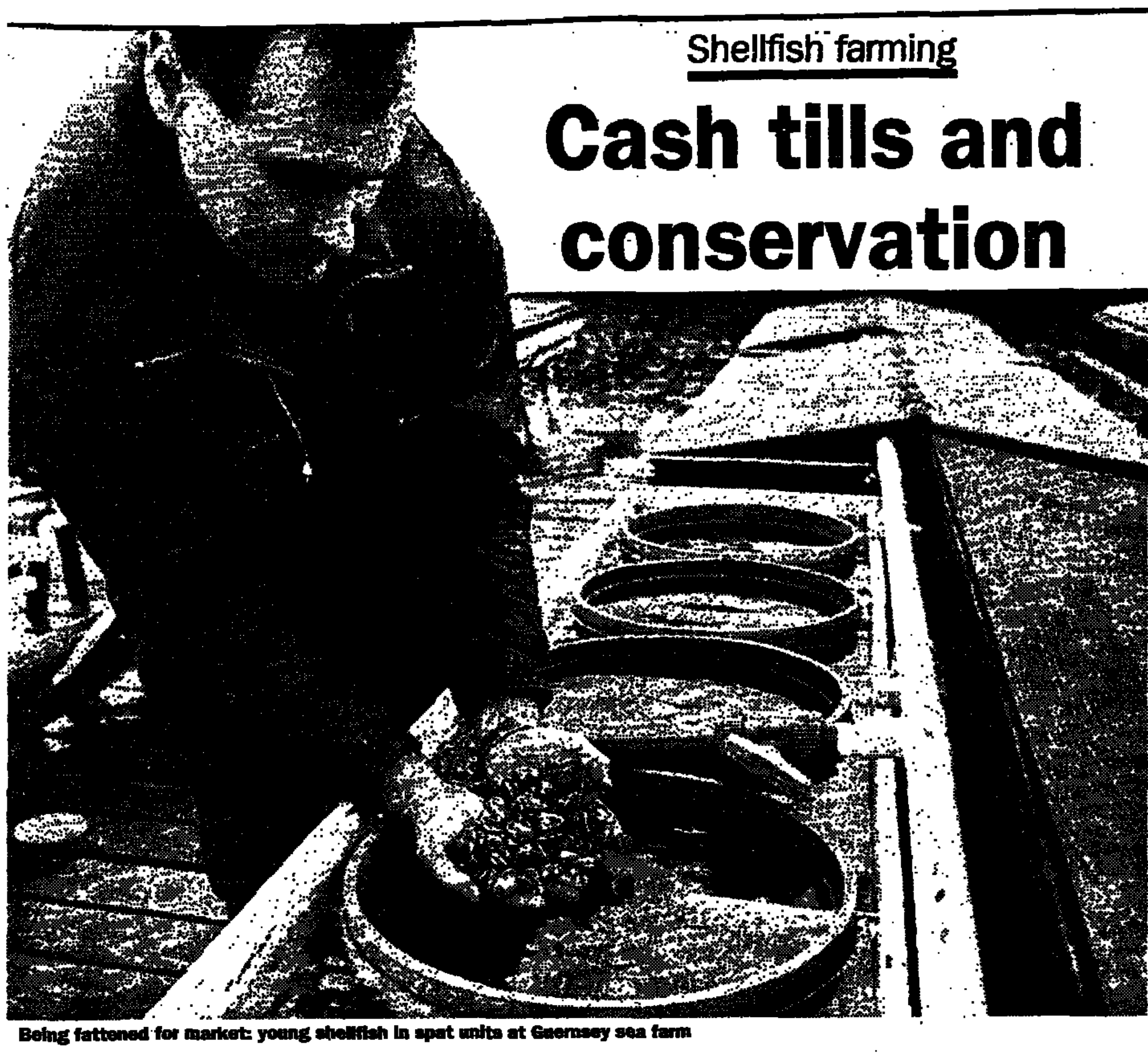
Observing the amount of development in St Helier and St Peter Port, the respective capitals of Jersey and Guernsey, the visitor finds this hard to believe. But virtually all the new offices are built either for a particular client or on a pre-let basis. Where there is accommodation, it is snapped up before the agent needs to look for a tenant.

The last of four 5-storey blocks built on a former cinema site in St Helier was recently sold to Allied Irish Banks for £4m. Two other blocks were bought by Chase Manhattan and the fourth is being leased by MIM Britannia.

In St Peter Port, the Bank of Bermuda now has two buildings, one opened in 1980, the other completed this year; both are being fully used by the bank itself. A £7m development elsewhere in the town by the Royal Bank of Canada was originally expected to have space for letting; now it is likely to be fully occupied by the Bank's own staff.

Said Guernsey estate agent Chris Shields: "If another financial institution never came into the island, I think the expansion of the existing industry would take up forseeable office space."

Edward Owen



Being fattened for market: young shellfish in spat units at Guernsey sea farm

Shellfish farming

Cash tills and conservation

THE ORMER is a rare shellfish delicacy found in the Channel Islands and, like so many other species these days, one which has been decimated by over-fishing.

Quite why anyone should bother to fish so enthusiastically a rubbery mollusc that needs to be cooked slowly overnight, before it is remotely tender enough to chew on, is a mystery. Like a limpet, it has only a top shell, the inside of which can be pearly, its large foot both attaches itself to the rocks and allows it to move, and it eats seaweed.

In most other parts of the world it is called abalone and the inhabitants of Guernsey speak in loving tones of this delicacy. Its local name is a corruption of oreille de mer because the rough upper side of its shell looks like a mummified ear.

To try to prevent overfishing, Guernsey has peculiar by-laws which restrict the once popular practice of foreshore gathering of the ormer to the days of the new moon and full moon, and two days after each, from January 1 to April 30; in other words for 24 days in the coldest part of the year, with no diving gear or thermal protection permitted.

Not surprisingly, when pressed, over half admit never to having eaten an ormer, and others say that it is not all it is cracked up to be.

Nevertheless, because the numbers are severely depleted, the government of Guernsey decided that something needed to be done about it. After consultations with the universities of Brest and Galway, plus some input from Portsmouth Polytechnic, it has financed the construction of a series of large breeze block "hives" at about the low water line, the mollusc's natural habitat. It is now hoping to persuade local people to become "foreshore farmers" and take responsibility for rearing allocations of the 10,000 seed ormers a year which the Government plans to supply over the next three years.

Once they have grown to full size, the farmers' job will then be to harvest them for shipment to a world market reckoned to be capable of consuming 300m. tons of abalone a year. As it is, the current total world supply is put at no more than 30 tons. Cash tills and conservation, it seems, can go hand in hand.

Another shellfish venture a few miles away is strictly commercial - oyster farming. Surrounded by an array of bubbling bottles that would have kept Disney's sorcerer's apprentice entranced for hours, Mark Dravers and his wife Penny, along with colleague Richard Fox, have devised a system which produces 200m baby oysters each Monday morning.

They achieve this by having the equivalent of a few queen bees sitting in a tank being fed on the very best quality algae. The water temperature is gradually increased to create an impression that the tide is coming in over hot sand; so it must be summer and time to breed.

Each breeding oyster, a highly prolific Japanese variety, produces 20m to 30m eggs. There are 10 of them working away, hence the weekly birthrate of 200m.

The eggs are artificially inseminated and develop into larvae which, after two or three weeks, then metamorphose by attaching themselves to a conveniently-provided sliver of shell or stone and start growing their left shell. Like Strasbourg geese, the larvae are fed a saline soup cooked up in four-foot high plastic cookers. Each one contains a different algae with the result that they vary in colour from near-clear and lime green to sarsaparilla brown.

The larvae need different algae, which are brewed up in an adjoining laboratory, at different stages in their growth in order to achieve their maximum growth rate of approximately 20 per cent a day.

Eventually the little seedlings are strong enough to face the great outdoors, which in this case is is the Guernsey Sea Farm, a four- acre, 90-foot deep, coastal pool, overshadowed by the towering granite cliff from which it was quarried in the first place. Originally a rock hole near the sea, it was transformed into a saltwater pool by a Royal Engineers blasting exercise.It is an ideal environment. It receives ample sunlight which, in turn, breeds abundant plankton.

A paddle wheel reminiscent of something from a Yukon gold mine, pumps 30 tons a minute of food-enriched water from the pool up through the baskets in which the seedlings are growing and, despite the high mortality rate - it's the same for the clams which are also farmed there - between 20m and 30m seed oysters about the size of a fingernail are exported every year, particularly to France and Spain.

Stuart Alexander

THE DAMAGE caused by the October hurricane was another blow for island growers who have been struggling to remain viable in recent years.

In Guernsey it is estimated that 38 per cent of all glass houses was affected by the storm, with 246 acres damaged and 17 acres totally destroyed. Of the latter, 3 acres were of old glass not in production.

In some cases restoration is expected to take six months although unlike the polythene tunnels favoured by many Jersey growers who woke up to find them a total write-off, all the storm-hit modern glass is repairable. Portuguese workers from Madeira have come to Guernsey to help carry out the work.

But the hurricane was a fresh setback for an industry which, according to a recent study of its prospects by consultants Peat Marwick McLintock (undertaken as part of a general economic appraisal of the island) has seen a decline in its area of glass from 968 acres in 1979 to 712 acres in 1986.

Tomatoes, which once dominated the island's horticulture, have declined over the same period from the position where they accounted for 60 per cent of the glass to only 14 per cent.

Total revenue from horticulture's principal exports fell in real terms from nearly £62m in 1979 to less than £27m in 1986. The report added: "The decline of the industry has not been fully recognised. In many quarters horticulture is still regarded as a, if not the, major industry."

The consultants foresaw continued contraction over the next five years with commercial acreage under glass falling to around 625 acres. They predicted a further drop in tomato production although not on the same scale as recent years with a rise in export of roses, exotic plants and ornamentals.

The decline in the industry has not been fully recognised

Recommending "a strategic overview containing detailed projections" for the industry, PMM suggested that Guernsey's policy-making for horticulture had been based more on sentiment and political pressure than on "rigorous analysis of the industry's prospects."

John Langlois, president of the horticultural committee, thinks that some of PMM's conclusions are unduly pessimistic, although he has welcomed the recommendation that there should be an independent review of the industry. He points out that in the past, it was horticulture that had pioneered outside assessments with an independent report on the tomato industry, followed by another on flowers.

He said that the consultants' appraisal had come at a time when the industry had been facing special difficulties from which producers had recovered well. He praised the resilience of Guernsey growers, who, generally speaking, "got off their backsides and down to work."

Mr Langlois instanced the devastating frosts early this year when £30,000 of government money was made available for producers in difficulties. In the event only four applications were received of which three were never pursued.

Over the past three years, Guernsey's government has spent £5.25m on support for horticulture. The industry is now one third the size it was 15 years ago and represents about 9 per cent of GNP.

Initially, support was seen as essential to ease the job loss problem but today's conditions of virtual full employment and scarcity of glasshouse labour have changed the situation.

Last year, tomato growers received £200,000 in price support - final payment in a government scheme to help producers weather the tomato trade recession. It was introduced in 1980 with £600,000.

Support now takes the form of low interest loans for investment in modernisation, help with sales promotion, and grants for growers experimenting with new crops. Aid is linked to export sales for the industry at 3 per cent of the total for capital investment and 1 per cent each for promotion and new crops.

It has been of great assistance to Guernsey, faced with the decline in its tomato trade, in reshaping its horticultural industry and looking - with some success - for new crops. One has been cut flowers which have been boosted by the sharp increase in fuel prices experienced in the 1970s since they require less heat. Whereas the acreage under glass devoted to cut flowers stood at around 31 per cent of the total in 1979, by last year it had risen by over 50 per cent with 420 acres of flowers grown indoors as against 278 in 1979.

Figures for 1986 show that flower exports including ornamentals were worth nearly £19m, tomatoes £6.5m and other edible crops £1.306m. One of the fastest growing new markets has been flowers sent by post. Last year 353,171 boxes - an increase of 100,000 on 1985 - were mailed bringing in nearly £2.5m.

The Guernsey Growers' Co-operative - successor to the Guernsey Tomato Marketing Board - began trading at the beginning of this year from former GTMB premises leased back from the island government.

The new marketing organisation is voluntary, governed by its own members. Legislation forcing all tomato growers to export through the GTMB was rescinded two years ago and the board - established in 1952 - was put into liquidation.

Recently the co-operative installed three fast chill units in its cool store, principally to enable kiwi fruit to over-winter in the island until the coming of spring and better market prices. Kiwi fruit is now produced by a number of growers in some 34 acres of glass.

Channel Islands Exotics, which has a kiwi fruit section, was formed this year by a group of eight producers to pool expertise and marketing ideas for the babaco, a South American fruit allied to the paw-paw. The group expects to export some 26,000 babaco in 1987 and will eventually grow other experimental crops. Trials are being carried out at the Horticultural Advisory Service on a "Guernsey basket of exotic fruit" include some in the tomato family such as pepinos and Cape gooseberries.

Peppers, aubergines, parsley, celery and cucumber are among more conventional alternative crops other growers are now including.

Horticulture in Jersey is well diversified. The island exports a greater variety of crops than Guernsey but the industry has never been a mainstay of the economy as it used to be in the smaller islands and has not suffered the same traumatic contraction. Jersey's main export, the potato, has continued to hold its own in the UK market.

The latest available export figures show that horticulture was worth £22,766,707 in 1985 - about £2m down on 1984 which was considered a record year. Biggest single earner was the Jersey potato at over £9.5m, followed by cauliflower at over £3.25m and flowers at just over £3m.

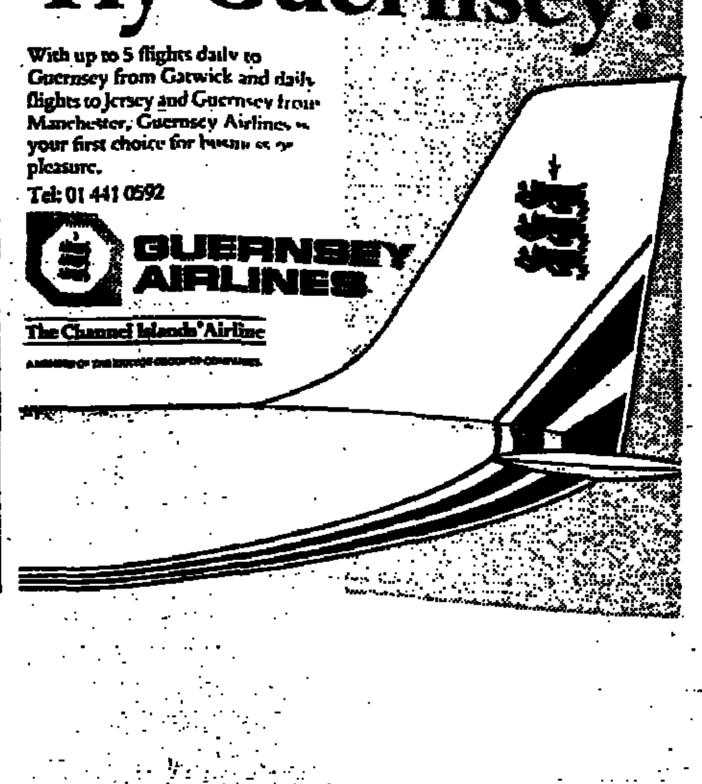
Jersey grows far more vegetables and flowers outdoors than Guernsey and cultivating Jersey Royals under polythene sheeting is an increasing trend. Over 1,200 acres of potatoes were planted under polythene in 1985 compared with about 530 acres in 1984.

Willa Owen

Portuguese workers from Madeira have been brought to Guernsey to repair the October hurricane damage to glasshouses.

Horticulture

Hurricane blow



Energy supplies

French links

MILLIONS OF pounds are to be spent by Channel Islands electricity undertakings to ensure short-term and long time supplies for their 60,000 customers, while decreasing their dependance on imported, dollar-costed oil as a primary generating fuel

The part private and part Government-owned Jersey Electricity Company(JEC) with 35,000 consumers,has already laid a submarine cable to the nearby French coast to draw in cheaper electricity through the summers from Electricite de France(EDF).

In 1986 this link supplied 163m kilowatt hours of electricity against a total of 217m kilowatt hours generated locally. There was also an input of 7.5m kilowatt hours from a small refuse incineration unit.

As the European grid generates electricity from a range of primary sources, from water power, oil, coal and nuclear power, this is already seen as a substantial step towards flexibility.

In January, the Jersey Parliament will debate the report setting out the future options for locally generated electricity. A switch from oil to coal-fired primary fuel is to be recommended, again on grounds of flexibility plus economy.

In Guernsey negotiations with EDF for a similar submarine cable link are "progressing" and site investigations have been carried out. Mr John Humphreys, general manager of the island's States Electricity Board says that work is still continuing on technical specification for the link which may soon be going out to International tender.

"Preliminary costings estimate the project will need some £26m worth of financing which, from enquiries the SEB have already made, Mr Humphreys is convinced will come from local sources. The island's many banks are starved of sizeable good quality local-lending opportunities.

Guernsey's decision to investigate the concept of "plugging" into the continental European grid followed a detailed report by consultants Ewbank Preece Power and Water Limited of Brighton

In proposing the submarine cable link as both a viable and technically feasible option the consultants also eliminated three renewable energy technologies as serious alternatives - wind power, refuse incineration and a tidal barrage

The last is regarded as "completely uneconomic," although the Channel Islands do experience tidal rises and falls of up to 40ft.

A refuse plan would cost an estimated £4m to £13m and would produce only about 3MW of power. The minimum demand in Guernsey last year was 8.7MW and the maximum this year was 55.3MW. *Jersey's maximum in 1986 was 102MW.*

Wind power electricity generation was ruled out on the grounds that to produce anything like the island's maximum power requirements a total of 168,26-metre high wind generating turbines would be needed.

They were also seen as too expensive to even augment the capacity of the island's existing diesel plant.

This consists of four slow speed Sulzer diesel generators the latest of which a 14.2MW unit came on stream only recently. It brings the power stations "firm capacity" to 56MW, although there is spare power over and above this.

Demand for electricity continues to increase in both islands. Consumption in Guernsey has risen during each of the past six months beyond previous maximum levels.

The three main options facing Jersey are: to extend the existing oil-fired power station at La Collette, near St Helier Harbour, to lay another submarine cable to France, or to switch to coal-generated electricity

The first choice would not increase fuel flexibility and the capital costs involved would require tariff increases.

There would have to be tariff increases too, if the French linked option was selected, not only to cover installation costs but also because it would have to be used during the winter months when French electricity *is at its most expensive.*

Furthermore because the supply from EDF depends upon overhead cables for the land-based portion of the link, the reliability of supply could be affected *by the ravages of winter* snow and ice.

These are some of the reasons why a coal-fired powered station is looking the strongest contender. Mr Richard Wade,managing director of JEC believes that new technical developments can help overcome the environmental problems of discharging coal cargoes and disposing of ash

Coal can currently be delivered to Jersey at prices that are 40 per cent cheaper than oil at equivalent calorific values. Some long term forecasts say this differential could widen to 140 per cent

Most of all,however, JEC believes that cost savings on a coal-fired power station would be so great that the capital costs of construction could be met without the need to increase tariffs.

Bob Baker

Tourism

All change

"I see nothing wrong in the islands being regarded as a second-holiday destination, provided we are talking about the quality visitor."

A year or two ago such a remark by a leading figure in the local tourist industry, Iain MacFirbhisigh, chairman of the Channel Islands Tour Operators' Group, would have sounded almost poetical. Today the majority of island hoteliers accept it as a perfectly reasonable forward looking view.

The pattern of the Channel Islands' tourist trade is changing. While there are still thousands of people who take their main holiday there the growth of cheap package tours to sunnier resorts has meant that Jersey and Guernsey can no longer expect a mass summer influx of loyal British holidaymakers to fill their 35,000 tourist beds.

The days when high-season accommodation was sold out by mid-February are over. Visitors are booking later and often for shorter stays. Tour operators are having to cater increasingly for the short break market and for impulse buyers and hotels are having to adapt to quickly changing booking charts. "We *are all having to work harder,*" said Mr MacFirbhisigh.

In the event the islands did very well last season with passenger arrival figures up on 1986 and healthy hotel occupancy levels. *Guernsey's Director of Tourism*, Michael Walden, is confident that - due partly to three big events held in September - *the island* will be found to have had a record year.

Nevertheless the tourist authorities are preparing to take a long hard look at their product and their marketing strategy to identify what they should be offering to whom in the 1990s.

Jersey's Tourism Committee will be studying a £50,000 report on the future of the industry commissioned from consultants Pannell Kerr Forster. A similar review is to be undertaken in Guernsey from local resources with a view to producing a five-year plan.

The aim is at least to maintain in real terms the contribution tourism makes to the local economies estimated to be worth around £200m in Jersey and £65 to £70m in Guernsey.

The islands want to spread tourist traffic over a longer season *and attract a certain amount* of business year round. Jersey and Guernsey have both been running off season advertising campaigns this year - the latter for the first time.

Conference trade is being helped by the islands' success as a financial centre. The main hotels now handle a steady flow of sales meetings, seminars and other corporate gatherings.

Meanwhile, on the holiday front, the islands are searching for a new identity. The sun-and-beaches image is being phased out in favour of projecting a more upmarket picture. The emphasis is now on their natural beauty and restful environment, their rich archaeological and historical heritage, and their unique character as small self-governing communities.

For 1988, the Guernsey Tourist Board has taken the bold step of making a Renoir painting the centrepiece of its publicity. An important exhibition of his paintings of the island which he visited in 1883, is to be staged next summer.

Jersey is again exploiting the immense popularity of the Jim Bergerac character created by *John Nettles (himself a great* publicist for the island) in the BBC TV thriller series, which is just about to enter its sixth instalment. Bergerac has given Jersey the sort of exposure the *tourist authorities now want to* show off its scenery and captivating atmosphere.

Because of land shortages and planning restrictions completely new hotels are a rarity in the islands. However a 100 bedroom hotel is under construction for *Novotel UK at Grand Havre Bay* in Guernsey and a hotel providing 25 bedrooms and suites has been opened at Guernsey's Bazon Bay as part of the Channel Islands' only timeshare development.

Tourism investment mainly takes the form of improving existing establishments. The largest current scheme is at Jersey's Hotel de France where a major redevelopment has included the rebuilding of one wing at a cost of £5m - designed, according to General Manager Robert Parker, for "business people, conference delegates and upmarket tourists."

Iain MacFirbhisigh thinks that one of the main tasks ahead for the local industry is to educate the British public to appreciate the qualities of the Channel Islands which most appeal to Continent visitors - who provide about 20 per cent of *Jersey's* tourists and 15 per cent of Guernsey's.

"The French, Belgians, Dutch and Germans come here for what the islands are really about. *They don't expect the* weather to be always wonderful. They are happy to go around, enjoy the walks and scenery, and explore all the historical and other interesting experiences the islands have to offer.

Edward Owen

Jersey's rich archaeology is finally to go on display

Treasures of the past

AFTER MONTHS of public and private wrangling and much heart searching among members of the local cultural body, La Societe Jersiaise, a £3m extension to the society's museum in St Helier has been given the go-ahead.

Jersey's parliament agreed last month to proposals for the new museum, although building work is not expected to start until the 1990s because of current *pressures on island resources.*

Construction will be funded by the Jersey Heritage Trust, a government-sponsored body set up in 1980 to co-ordinate historic castles, museums and art galleries.

About three years ago La Societe approached the trust for funds for a new museum on the site of an 18th century warehouse adjoining its existing museum at Pier Road.

The need for a new museum had been under discussion since around 1970. But the society's responsibility for storage and display, in modern conditions, of archaeological treasures from the prestigious site of La Cotte became imperative as these restored findings gained in international significance.

Jersey's government was prepared to provide the money through the Heritage Trust but only if La Societe transferred ownership of all its Pier Road properties, apart from its library, to the trust, along with the care but not the ownership of all the *society's collections.*

La Societe Jersiaise was founded in 1873 and many of its present members were afraid that the proposed "partnership" in a Jersey Museums Service was *simply a form of nationalisation.* But others held that the time had come to co-ordinate the richness of Jersey's past and inject a professionalism that only government money could sustain.

They argued that there were built-in safeguards to ensure that the society could never be pushed aside. This faction triumphed at a meeting in October when members decided to ratify the agreement between the society and the trust so that proposals for the new museum could be put forward.

Michael Day, appointed director of the Jersey Museums Service at the beginning of this year, expects that once building has begun it will take five years before doors to a modern display of "The Story of Jersey" will open to the public.

"What people will see when they first walk in will be a representation of the La Cotte site. We are hoping to recreate the cliff face - probably on two floors."

This complex site covers a timescale of a quarter of a million years. *Digs have been under*taken periodically ever since 1881 by both local and international archaeologists and a succession of Cambridge undergraduates - Prince Charles among *them.*

The publication of a major report this year has excited worldwide interest in La Cotte. The £60 tome incorporates the work of the late Professor *Charles McBurney* with contributions by scientists from five countries, and is edited by Dr Paul Callow of Cambridge University and Jean Cornford.

The most spectacular discoveries were the remains of woolly mammoth and rhino that roamed Jersey some 150,000 years ago. Bones and skulls were found heaped at the foot of the site's 100 foot drop - evidence that primitive man used such ravines as "funnel traps" stampeding herds of prehistoric beasts over the cliff edge to their deaths.

The Mourant Trust, set up in honour of Dr Arthur Mourant, a distinguished Jersey octogenarian, was among a number of bodies that sponsored the La Cotte report. According to Dr Mourant the site yielded human teeth that are the only true Neander*thal remains discovered so far in* the British Isles. He said: "Almost as many actual flint implements of that period have been found at La Cotte as have been found in the rest of Europe."

As a 20-year-old undergraduate Dr Mourant was one of the team who opened up the chamber tomb of La Hougue Bie, a neolithic site where La Societe Jersiaise now has its main archaeological and geological museums. It is also the headquarters of Hilary Stuart-Williams, a professional archaeologist appointed last year by the Heritage Trust. Mr Stuart-Williams hopes eventually to fill in empty chapters in Jersey's archaeological history. "There are plenty of neolithic sites - and then a long blank until around 1000 AD."

In Guernsey where almost all museums and historic sites have been controlled for some years by the government's Ancient Monuments Committee, new evidence has recently been uncovered about the island history from around 250 BC to 1250 AD. Recent digs in St Peter Port have established for the first time that the harbour capital was a thriving Roman trading post.

These discoveries coincided with the recovery of a unique Roman wreck from the harbour. The rescue operation was led by *Margaret Rule* who raised the Tudor warship Mary Rose.

Meanwhile, excavations over four seasons by Ancient Monuments at 13th century Castle Cornet, the island's most treasured *historic building*, have built up a vivid profile of the castle's development from a medieval fortress to a German-held stronghold in the Second World War.

Willis Murray

Guernsey, Ahoy!

Guernsey's Tourist Board is hopeful that the island will be used as a filming location for the next series of the BBC TV marine soap opera "Howard's Way". The signs are promising after a visit to the island last month by the programme's producer,assistant producer and script co-ordinator.

If it comes off the coup will not only give Guernsey welcome counter publicity to Jersey's long running exposure, through the Bergerac series, but will also fit in admirably with its current aspiration to become a leading European yachting and power boating centre.

Guernsey is to be the main sponsor next month of the International Boat Show at Earl's Court a £170,000 investment which it is hoped will bring world-wide publicity for its boating and tourist attractions.

The island plans to project itself strongly at the show with a locally-owned Class 1 Power boat and a locally-built motor cruiser on display in the fore-court, a "friendly isle" welcome in the foyer ,security staff sporting Guernsey sweaters and a central harbour feature re-creating the atmosphere of St. Peter Port.

One of the aims is to show off a £20m reclamation and harbour development scheme, that has included the construction of an 800-berth marina.

As the visiting BBC team found, St Peter Port now has three marinas extend along a mile of the harbour front and business is booming for the boat yards, ship chandlers and other marine services.

Guernsey got its start as a yacht racing resort when the financial services group Schroder, (now N M Schroder) launched an annual race from Cowes in 1982. This year's event attracted over 130 entries.

The island was also chosen last summer as the venue for the prestigious Swan European Regatta.

However, the marine spectacular which the Howard's Way team particularly have their eyes on, will be during September next year, when Guernsey hosts the World Class One and Two Power Boat Championships.

This event, for which the Tourist Board is putting up £200,000 which will cost £500,000 to mount, follows from the island's success since 1984 in organising an annual international power boat week.

Some of the world's top power boat drivers such as Renato della Valle and Stefano Casiraghi, husband of Princess Caroline of Monaco, have already competed locally, and for the 1988 event most of the international stars of the sport are expected to converge on the island.

Edward Owen

Printing industry

Big success in exports

OF A bevy of small to medium-sized printing firms in the Channel Islands, all competing to serve the needs of a wide range of insular businesses, only two stand out on the basis of export-led growth.

Both are in Guernsey and both have carved out significant market positions for themselves in the UK and Europe by becoming specialists in particular fields.

Export success for the 90-year-old Guernsey Press Co., of Braye Road Industrial Estate, Vale, has been achieved through the development of a paperback book printing division.

This year the division is expected to produce for export some 8m paperbacks, earning the company in excess of £6m. With existing plant - the company has embarked on a major expansion programme - the maximum capacity is 10m books a year.

The company began printing paperbacks in a small way in the 1970s using the spare capacity of their Colour King newspaper press and a Muller Ponybinder to produce up to 1,000 books an hour.

Twelve years ago their only outside customer was Transworld Publishers who are still one of their regulars. More recently they have been joined by Pan, Penguin, Century, Dent, Pluto and Routledge Kegan and Paul.

The earlier experience, coupled with market research, prompted a decision in 1981 to invest in a purpose-built paperback book manufacturing operation.

The research showed, according to managing director Chris Sackett, that the cut-off on the company's newspaper press was exactly right for B format paperbacks - the 197 x 128mm size, slightly larger than the standard mass market title and growing in popularity.

Sackett says that while the company will take runs as low as 3,000 the average run is of 10,000.

The company prints the books on two Colour King webs in 64-pp sections with a 578mm cut-off. The maximum pagination on one pass is 672pp. One of the webs is a two-unit with its own folder and the other, a seven-unit, can be run as a five and a two, with separate folders to produce two books at once.

Books of up to 672 pages can be bound in one operation using a Muller Martini binding line and the company has installed a four colour Heidelberg Speedmaster for covers.

Most of the books printed by the company's new division are supplied by customers in the form of camera ready copy (CRC) and the division can produce 12,000 books an hour that are shrunkwrapped and palatised for delivery to the UK.

The other Guernsey company to have won export success is Channel Printers, of Place du Commerce, St Peter Port, who specialise in big print runs of full colour photographic envelopes and wallets. Their record run to date is 70m items but 300,000 to 400,000 are more commonplace.

Managing director Bill Wall, formerly of Birmingham, says they now command some 35 per cent of this market in the UK and some 10 per cent in Europe. This makes them one of the largest printers of their kind in the British Isles, he believes.

Formed in 1982 through the merger of Flowline Printers in Guernsey and Lithoprint of Jersey, the company now employs 50 in Guernsey and 20 in Jersey.

Since 1982 they have invested over £1m in plant, including an eight-unit £500,000 Didde Webcom 700 from the US and recently another £400,000 on a four colour Heidelberg Speedmaster. This makes for an eight-machine "printing fleet."

The Webcom, that Wall likes to keep running 18 hours a day, seven days a week, has clocked up over 8,000 hours and he believes that the additional Heidelberg will help Channel Printers "stop even more print work being done outside the island."

He attributes the firm's success to their highspeed turn-around of orders, quality of work and competitive pricing.

"We do not enjoy any advantage because we are in a VAT zero-rated area. Quite the reverse - we have extra freight costs to overcome," he says.

Bob Baker

Transport links

Sea ferries fight back

A NEW design of high-speed waterjet catamaran carrying over 400 passengers will go into service next summer between the UK mainland and the Channel Islands.

The vessel is being built in Sweden by Marinteknik for the Guernsey-based company Condor which has operated hydrofoils between the Islands and France since 1964.

In its pioneer days, under the direction of Guernsey shipowner Peter Dorey, who was drowned in the 1979 Fastnet yacht race, Condor had to invest heavily in adapting its Italian-built hydrofoils to the conditions of the English Channel.

Against some experts' predictions, this form of transport proved viable, and a network of services was developed linking Guernsey, Jersey, Alderney, Sark, Herm and the French port of St Malo.

This year Condor - now part of Guernsey's Commodore Shipping group - took a step it had been studying for some time by extending its operations to the English south coast.

The company's newest hydrofoil, the 200-seat 36-knot Condor 7 was used to run a daily service between Weymouth and the Islands, reducing the crossing time to half that of a conventional ferry.

With some 47,000 passengers carried and less than 3 per cent of sailings disrupted by bad weather, the service was successful enough for managing director David Norman and his colleagues to look for a much larger vessel. As no existing hydrofoil could meet the requirements they turned to the fast catamarans developed by the Fairey Marinteknik group.

The new vessel will be the first of its type off the production line. It will be larger than any passenger catamaran so far operated in the English Channel and, with a speed of 36.5 knots, considerably faster.

The catamaran will take over the Weymouth-Channel Islands service in mid-June from Condor 7. The hydrofoil will then be used to run a second daily service from the Dorset port.

The additional service will call on three days a week at Alderney, giving that island a sea crossing from the mainland of only one hour 40 minutes.

Since Sealink and its competitor, Channel Island Ferries, merged their operations to the Islands in late 1986 to form British Channel Island Ferries - a partnership that ended in a legal dispute, leaving Channel Island Ferries in sole control - Guernsey and Jersey have had considerably reduced car ferry services.

BCIF provides a year-round one-ship service from Portsmouth and a seasonal one-ship service from Weymouth. The only other car ferry link is a small, though busy, operation from Torquay run by Torbay Seaways.

For 1988, BCIF is changing its schedules to offer more convenient departure times, including a daylight instead of an overnight outward sailing from Weymouth.

As a result of the BCIF dispute, Sealink was debarred from operating on UK-Channel Islands routes for a certain period but kept a presence in the archipelago by running a Cherbourg-Guernsey service last summer.

Although this was effectively a continuation on one or two days a week of its Portsmouth Cherbourg service, the company was unable to offer through Portsmouth-Guernsey passages because of the legal embargo.

From April 16, however, Sealink will be free of this restriction and plans to promote the Portsmouth-Cherbourg-Guernsey route in competition with BCIF's sailings to Guernsey via Jersey.

The chequered history of Channel Islands ferry services in recent years, coupled with more aggressive pricing by the airlines, has led to a marked swing from sea to air travel. In the first nine months of this year air arrivals in Jersey from Britain were 13 per cent up on 1986 while sea arrivals were 26 per cent down.

One factor has been the increasing use of Southampton airport, with its improved rail connection with London, as a departure point to the Islands.

Traffic through Southampton jumped dramatically this year with British Air Ferries/Guernsey Airlines moving on to the route in competition with the previous sole operator, Air UK. Both airlines operated up to five flights daily.

BAF/Guernsey Airlines offered a "no strings" £29 single fare and Air UK countered with a Skylink fare, bookable the day before travel, of £25 single (since reduced to £19).

There is little doubt which airline won the Southampton battle. When BAF sold its Guernsey airline subsidiary three months ago to the group controlling the inter-island carrier Aurigny Air Services, the new owner discarded the Southampton service as unprofitable. Air UK was able to announce a big increase in its carryings.

Meanwhile Air UK has doubled capacity between Heathrow and Guernsey by introducing one of its two new 100-seat BAe 146 commuter jets on the route this month, in place of the previous 52-seat F27 turbojets.

Cutting the flight time from one hour to 45 minutes, this is the first jet service to Guernsey from the UK mainland although the Dutch airline NLM has been operating F28 jets to the island from Amsterdam for several years.

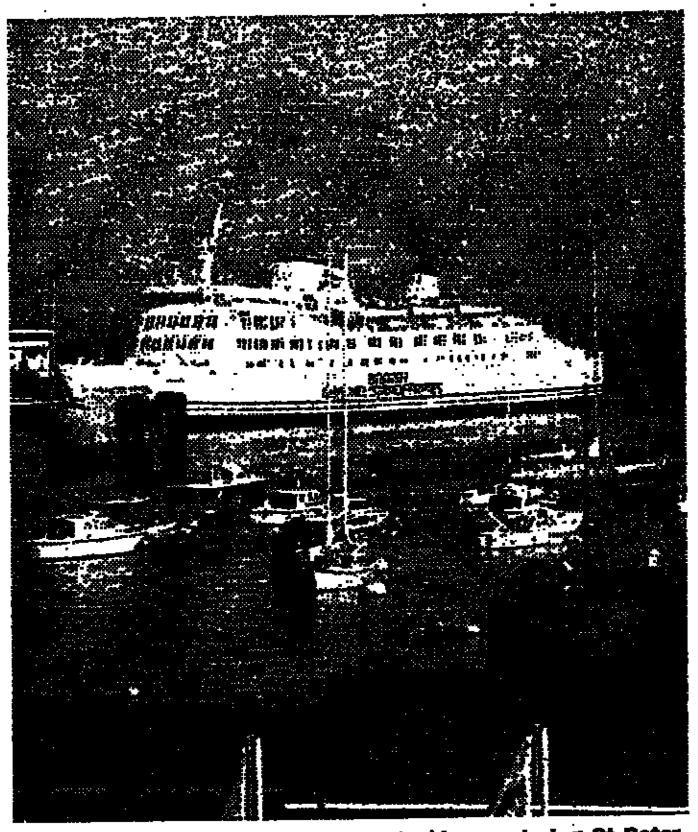
Last month British Air Ferries suddenly announced that it was ending all its scheduled and charter passenger flights to the Channel Islands and would concentrate in future on freight operations.

Only a few months ago the group had been claiming to be the largest air carrier into the islands with flights from over a dozen British airports as well as a service from Zurich and Geneva.

As the season progressed however, it became increasingly evident that BAF's resources and finances were being overstretched, so last month's announcement was not the shock it would have been a year ago. The local tourist industry was grateful at least that it had been made in time for other airlines to apply for BAF's routes next season and for tour operators to make alternative charter arrangements.

Guernsey's main concern was over the loss of the Zurich service, which for the first time enabled Swiss travel firms to offer direct flights to the island. Jersey was less worried because a new airline States Express, plans to link the island from next April with Geneva and Zurich as well as other continental cities.

Edward Owen



British Channel Island Ferries ship, Corbiere, entering St Peter Port harbour, Guernsey

Traffic congestion

An ungrasped nettle

CHANNEL ISLANDERS are so attached to their cars that doing something about the ever rising level of car ownership is a nettle that local politicians have preferred not to grasp.

The volume of traffic - particularly in St Helier and St Peter Port - is the most common target for complaints from tourists, even among the thousands who ship over or hire cars and (according to local motorists) help to create the problem.

This year, however, Guernsey's parliament agreed to disband its long established Passenger Transport Licensing Authority to make way for a new Traffic Committee with much wider powers and more staff.

The committee's mandate is to overview the whole problem from parking to public transport, road improvements to traffic flow. Under the presidency of retired bank manager Alan Barber, it will produce a plan every three years, setting out its strategy for the next six years. Each new plan will update the second part of the previous plan and project a further three years.

In his initial report Mr Barber said that the basic problem was that there were too many vehicles using an ancient road system, but the committee had rejected wholesale road widening as a way of coping with the motor age. "It is more reasonable that drivers should conform with the environment than that we should unduly alter the environment to accommodate the vehicles."

With a population of just over 80,000 in 45 square miles, car registrations in Jersey up to October this year stood at 57,490. About 10,600 of these were hire cars of which only 5,600 were estimated to be in circulation at any one time.

In Guernsey (population 55,480) there are about 30,000 private cars, including 5,000 hire cars, to weave through 25 square miles of roads. The speed limit is 35 mph against Jersey's 40 mph.

The larger island (unlike Guernsey where there are none) has already built several multi-storey car parks in St Helier. During a heated debate on the traffic problem in the island parliament last month (November) MPs voted for another multi-storey car park to be built on a former gas works site rather than a housing development. They also agreed that the island should have its first underground car park at a cost of £9m.

Although an amendment to "decrease commuter traffic" was heavily defeated, the authorities are looking at ways of developing the bus service to reduce the number of cars on the road. An experimental scheme centred on St Helier and using four different minibus models is planned for early next year.

Too many vehicles on an ancient road system

Jersey expects to introduce enabling legislation soon to put a ceiling if necessary on the number of hire cars coming into the island. Meanwhile operators are now required to provide parking space for 75 per cent of their car hire fleet.

In Guernsey legislation already exists to curtail the import of hire cars if ever this becomes necessary. But there are no specific controls on operators over parking.

Since 1984 car manufacturers have been leasing fleets to island operators for three month periods at favourable rates. The vehicles are afterwards shipped back to the UK and sold on the lucrative low-mileage second hand market.

As a result, Guernsey has probably the lowest car hire rates in the world with a group A model such as an Austin Metro available at under £4 a day in the off peak season. Jersey's rates this year for group A vehicles have been around £6.25 a day off peak and £9 in the peak season.

Guernsey's Traffic Committee has just completed a survey of the car hire scene. It recommended no action at present to reduce the volume, but said that the parking situation should be watched carefully. The report reveals that car hire business was worth about £300,000 a year in motor tax.

Willa Murray